Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Main report and annexes

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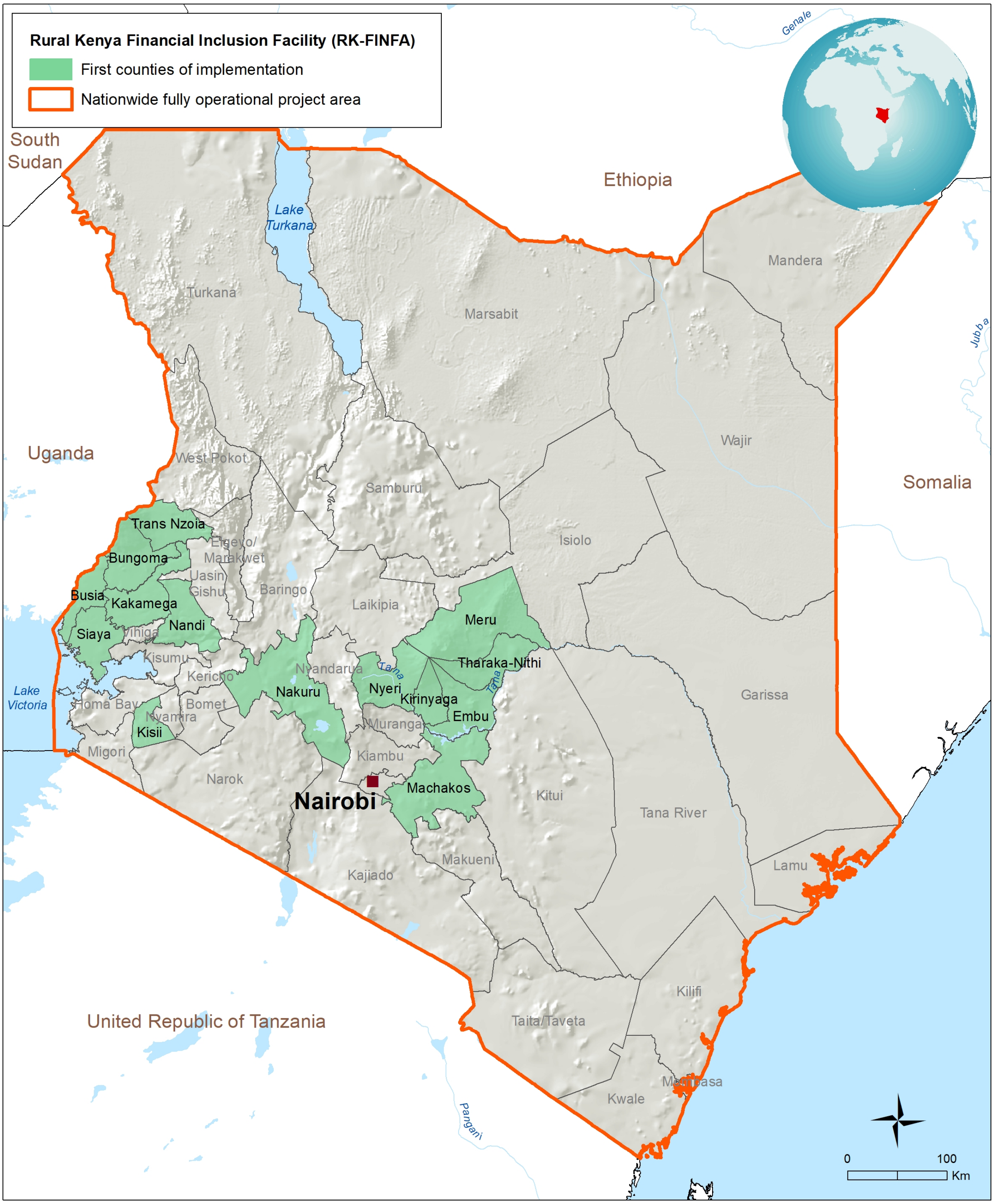
Map of the Project Area



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IFAD *Map compiled by IFAD* | 17-05-2021

Abbreviations and Acronyms

ABDP	Aquaculture Business Development Programme
AfDB	African Development Bank
AGRA	Alliance for a Green Revolution in Africa
ASTGS	Agriculture Sector Transformation and Growth Strategy
ASALs	Arid And Semi-Arid Lands
AWPB	Annual Work Plan and Budget
BPS	World Bank Business Pulse Survey
BDS	Business Development Services
CA	Conservation Agriculture
CBK	Central Bank of Kenya
CC	Climate Change
CGC	Credit Guarantee Company
CGS	Credit Guarantee Scheme
CI	IFAD's Core Indicator
COSOP	Country Strategic Opportunities Programme
COVID-19	Coronavirus Disease 2019
CSA	Climate Smart Agriculture
DFS	Digital Financial Service
DT-SACCO	Deposit Taking SACCO
EIB	European Investment Bank
EoI	Expressions of Interest
ESMS	Environment and Social Management Systems
EU	European Union
GALS	Gender Action Learning System
GDP	Gross Domestic Product
GFF	Green Financing Facility
GNI	Gross Domestic Income
GCF	Green Climate Fund
GoK	Government of Kenya
GRM	Grievance Redress Mechanism
FM	Financial Management
ha	hectare
HDI	Human Development Index
ILO	International Labour Organisation
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPRM	Integrated Project Risk Matrix
KCEP-CRAL	Kenya Cereals Enhancement Programme-Climate Resilient Agricultural Livelihoods Window
KeLCoP	Kenya Livestock Commercialization Project
KES	Kenya Shilling
KM	Knowledge Management
LE	Lead Enterprise
LoC	Line of Credit
MFB	Microfinance Bank
M&I	Monitoring and Evaluation
MoITED	Ministry of Industrialization, Trade and Enterprise Development
MNO	Mobile Network Operator

MSF	MSME Stabilisation Facility
MSME	Micro, Small and Medium Enterprise
MTR	Mid-Term Review
NDC	Nationally Determined Contributions
NPL	Non-Performing Loan
NT	National Treasury
PCR	Project Completion Report
PDO	Programme Development Objective
PDR	Project Design Report
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PMU	Project Management Unit
PS	Principal Secretary
PSC	Project Steering Committee
PWC	Persons Living with Disabilities
RF	Rural Finance
PROFIT	Programme for Rural Outreach of Financial Innovations and Technologies
R-CGS	Rural Credit Guarantee Scheme
RK-FINFA	Rural Kenya Financial Inclusion Facility
SA	Special Account
SACCO	Savings and Credit Cooperative Society
SAFER	Supporting Access to Finance and Enterprise Recovery
SASRA	Sacco Societies Regulatory Authority
SDG	Sustainable Development Goal
SECAP	Social Environment and Climate Assessment
SME	Small and Medium Enterprise
SO	Strategic Objective
SoE	Statement of Expenditure
TA	Technical Assistance
TOC	Theory of Change
TSIS	Technical Support and Innovation Service
US$	United States Dollar
UTaNRMP	Upper Tana Catchment Natural Resource Management Project
VC	Value Chain
WB	World Bank
WFP	World Food Programme

In line with IFAD11 mainstreaming commitments, the project has been validated as:

☐ Gender transformational ☑ Youth sensitive ☐ Nutrition sensitive ☑ Climate finance

IFAD Adaptation Finance	$12,772,000
IFAD Mitigation Finance	$0
Total IFAD Climate-focused Finance	$12,772,000

Executive Summary

Economic and social context. Over the past 10 years, Kenya's economy has grown rapidly. The average GDP growth in 2010 – 2019 was 5.85 per cent, supported especially by a friendly business climate, strong public infrastructure spending and increased regional trade. However, to sustain the achieved growth levels (even without COVID-19) will be a challenge in Kenya. Indeed, while the economy has performed generally well with strong government contributions, the public debt has rapidly increased and currently surpasses the standard risk levels. Since early 2020, Kenya's economy has been hit hard by COVID-19, as the containment measures and behavioural responses have dampened economic activity. The fact that a significant proportion of the population is planned to be vaccinated only in 2024 suggests a scenario, according to which the economic and social impacts of COVID-19 will continue over the medium term and possible even the long term, covering much of the planned RK-FINFA implementation period.

Agricultural Sector and Policy. Over the past two decades, the performance of smallholder agriculture in Kenya has been modest. Yields for most staple crops and livestock have stagnated. The principal barriers to smallholder agricultural productivity in Kenya can be clustered in six main areas: (a) land and population pressures, with average farm size rapidly declining; (b) poor soil fertility and land degradation; (c) limited agricultural research, development and extension; (d) reduced overall government spending on agriculture; (e) climate change and limited application of smart agriculture technologies; and (f) limited access to quality inputs, appropriate financial services and effective markets.

The Government's strategy to improve agricultural performance and productivity is presented in the Agriculture Sector Transformation and Growth Strategy (ASTGS 2019-2029). This strategy is anchored in three outcomes: (i) increasing small-scale farmer, pastoralist, and fisher incomes; (ii) increasing agricultural output and value addition; and (iii) boosting household food resilience. To be successful, the Government acknowledges that the ASTGS 2019-2029 needs to be implemented as much as possible through the private sector. Kenya's vibrant agribusiness sector would be a powerful engine in this agricultural transformation process. The ASTGS will be implemented in line with Kenya's Green Economy Strategy and Implementation Plan 2016-2030, which firmly embeds the principles of sustainable development in the overall national growth strategy. It identifies enabling conditions such as sustainable financing and creation of green, decent jobs.

Financial Sector and Rural Finance (RF). Kenya has a stable and diversified financial sector, which is the third largest in Sub-Saharan Africa in terms of total assets, and a significant contributor to the economic growth in the country in the past decades. Kenya's financial inclusion landscape has undergone a major transformation since 2006, with formal financial inclusion reaching 82.9 per cent in 2019 from 26.7 per cent in 2006. However, this major transformation is predominantly driven by information and communications technology, particularly the fast growth of mobile money services, and has yet to result into improved livelihoods, particularly for the rural poor. The increased access to finance has mainly focused on use of mobile payments and money transfer services, while in credit services for productive purposes, which in most cases still require direct contact to FIs, similar positive trends have not emerged.

COVID-19 has adversely affected especially the operations of largely member-based SACCOs, microfinance banks and other small financial operators, especially those working on sub-sectors such as service industries and export-oriented agriculture. As members' income streams have declined and become more irregular, savings levels by low-income households have declined and loan repayments have been delayed after rescheduling. Furthermore, many banks are shying away from lending to SACCOs and MFIs because of the perceived and real heightened risks. Therefore today, many SACCOs and most MFIs are facing serious liquidity constraints, which significantly limits their ability to issue new credits to support the recovery efforts of their members/clients.

Overall, demand for Rural and Agriculture Finance is insufficiently met in Kenya. Against the government target of 10 per cent, the agriculture sector investments represent only 4 per cent of overall financial sector portfolio despite the agriculture industries large share of GDP. During the RK-FINFA design process, consultations with IFAD-supported value chain project stakeholders validated the strong unmet demand for agricultural and through formal financial institutions, concerning both seasonal working capital and investment lending. Instead of formal lending, household data shows that the primary sources of households' financing to agriculture investments comprise savings, sales of assets, support from family and friends, as well as the widespread informal financial services such as the expensive loans from moneylenders and shopkeepers.

Within the context of building back better and contributing to the green economic growth in Kenya there is also scope for increasing the green financing provided FIs. The demand for these services is evident in the portfolios of the Banks and their expressed ambition to expand these portfolios. Evidently a taxonomy for green lending will have to be developed including adequate capacities and monitoring systems in the FIs.

Lessons learned. The key lessons from past and ongoing IFAD-supported operations for the RK-FINFA design can be summarised as: (a) the provision of technical support services to PFIs should start immediately after the PFI selection; (b) appropriate eligibility criteria for both PFIs and final borrowers and the operational guidelines in the RK-FINFA financed operations should be carefully designed at the project start-up; (c) particular emphasis would be required on progress monitoring and reporting, using as much as possible IT-based MIS solutions, supported by systematic field verification visits; (d) RF Project Management Unit and the implementing partners must have adequate capacity and assigned institutional roles for the designed RF instruments; and (e) appropriate flexibility should be allowed to different types of PFIs.

Project rationale. IFAD's main rationale for its involvement and investment in RK-FINFA derives from the increasing unmet demand for rural and agriculture finance and the core development objectives that IFAD and the GoK share on rural and agricultural development in Kenya. IFAD and the GoK agree that the effective transformation of the rural sector could be achieved particularly through (i) a substantially increased private sector focus in the development and investments of the sector; and (ii) improvements in the productivity of smallholder operations through modern cultivation methods and climate smart technologies, linking farmers to well-operating value chains and building farmer capacity to increase their readiness for innovation and diversification.

In both the GoK and IFAD visions, to develop the rural sector successfully and in a sustainable manner, private sector financial institutions (particularly commercial banks, SACCOs and MFIs) would need to play a central role in the financing of the rural transformation process. Development funding would be used to pro-actively stimulate the interest of the FIs to expand the volumes and outreach of their agricultural and rural operations. The proposed RK-FINFA would be one of the instruments aiming to ensure that appropriate and adequate financial services would be available for the planned transformation and growth of the rural economy in Kenya. In the wake of COVID-19, the need for this strategic development support is even greater, to initially improve the chances of fast rural recovery and then later boost the sustained growth of the sector, building back better. At the same time, to respond to Government's and IFAD's agendas on climate change adaptation/mitigation and to improve environmental management and efficiencies in the use of natural resources, RK-FINFA would pro-actively encourage the mainstreaming of green finance activities when sustainably transforming the rural sector in Kenya.

Goal and development objective. The project goal of the proposed RK-FINFA is: "*poverty reduction, climate change resilience and improved livelihoods in rural areas*". The Project Development Objective is: "*increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth*".

Project area. The geographic coverage of RK-FINFA, once fully operational, will be nationwide. However, for an effective project start-up, the entry point for the RK-FINFA outreach will be the 14 counties in which at least two IFAD-supported projects operate with agricultural value chains. With this approach, RK-FINFA and its Participating Financial Institutions (PFIs) will benefit from synergies with earlier IFAD-supported value chain development activities, and the financing can be focused on diversified value chains. After the RK-FINFA capacity building and initial financing cycle, the PFIs can expand their targeted area of investments with RK-FINFA resources to any rural county in Kenya. The PFIs will identify these expansion areas, based on their market opportunities and capabilities, while continuing to apply the agreed targeting principles of the project. This scaling up phase can start after the second year of the RK-FINFA implementation, and for each PFI only after their full development of the lending products and monitoring systems as required by RK-FINFA.

Target group and focus. The project will benefit 190,000 rural Kenyan households, including both direct and indirect clients. This includes direct financial and technical services to 68,000 households/MSMEs, covering: (i) an estimated 66,000 economically active smallholder households; and (ii) 2,000 rural MSMEs engaged in smallholder-inclusive VCs. Indirect outreach of the project includes: (i) estimated 32,000 persons through employment in the RK-FINFA supported agribusinesses and farms; and (ii) 90,000 smallholder households through participation in the VCs strengthened by the supported agribusinesses. The targeting focus is on low-income, economically active rural households, with specific targets on 50 per cent of women and 30 per cent of youth participation in both capacity building and financing activities. The RK-FINFA design provides comprehensive strategies/guidelines for poverty, gender and youth targeting.

Components and Activities. To achieve the RK-FINFA Project Goal and Development Objective, the project activities are structured into three mutually reinforcing components: Component 1:Technical Support and Innovation Services (TSIS); Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

<u>Component 1: Technical Support and Innovation Services (TSIS).</u> Through two fully inter-linked sub-components, Component 1 will (i) strengthen Participating Financial Institution (PFI) capacities for innovation, rural outreach and green finance services in Kenya, and (ii) build MSME and smallholder sustainable investment capacities and financial literacy skills particularly tailored to reach women, youth and marginalized groups. Both aspects of the TSIS, *supply and demand side*, will be embedded into the rural growth strategies of PFIs to foster sustainability and scalability and support the effective use of the resources provided through the project's Investment Instruments component. A co-financing partner organization/organizations will be engaged to coordinate the TSIS component.

Sub-component 1.1: PFI Capacity Building for Rural Outreach and Innovation. The expected outputs of this sub-component are: (i) the capacity of five participating commercial banks, six MFBs and 30 DT-SACCOs improved to provide rural and agriculture financial services including products tailored to reach 30 per cent youth and 50 per cent women; (ii) the capacity of all 41 PFIs built to implement and monitor green investment portfolios; and (iii) Environmental and Social Management Systems operationalized/strengthened by 41 PFIs.

Sub-component 1.2: Business Development Services for Agribusinesses and Smallholders. The expected outputs of this sub-component are: (i) 1,500 small and microenterprises receive Business Development Services (BDS) and are able to submit bankable business plans; and (ii) 50,000 male and female smallholder producers receive financial literacy training including for preparation of simple business plans appropriate for SACCO/MFB loan applications. The BDS is a key tool for social inclusion targeting of RK-FINFA: minimum of 50 per cent women and 30 per cent youth are included among all BDS clients.

<u>Component 2: Rural Investment Instruments.</u> The RK-FINFA will operate with two Rural Investment Instruments: (i) a *Rural Credit Guarantee Scheme* (R-CGS), and (ii) a *Green Financing Facility* (GFF). Both the R-CGS and the GFF will be designed as sustainable financing vehicles, which can utilize resources from the GoK and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions. The Technical

Support and Innovation Services packages under Component 1 will support the PFIs in the implementation of the rural investment instruments, in line with each PFI's respective rural and agriculture finance strategy. Identification and referral of agribusiness and smallholder candidates into the PFI funding pipelines are supported as described above in Component 1.2 (BDS and Financial Literacy services).

Sub-component 2.1: Rural Credit Guarantee Scheme (R-CGS). The strategy of the R-CGS is to provide risk sharing to promote rural outreach innovations and catalyze funding from Kenyan mainstream financial institutions into the rural and agriculture sector. The expected results of the R-CGS are: (i) supported by the R-CGS guarantee amount of US$ 20 million, PFIs lend US$ 80 million to rural MSMEs and agriculture value chains; (ii) 2,000 rural MSMEs have improved access to finance; (iii) 15,000 microenterprises and farmers have improved access to finance, including women and youth-owned enterprises, (iv) 30,000 smallholder farmers have improved access to finance with targeted products for women and youth, and (v) in overall the target of 30 per cent women and youth among end-client groups is achieved.

Sub-component 2.2: Green Financing Facility. Sub-component 2.2 supports the target of the innovative and sustainable transformation of Kenyan rural economy through the operations and services of the Green Financing Facility (GFF), to be established with the RK-FINFA support. The GFF will contribute to the sustainable rural transformation, growth, and income generation through two fully interlinked methods: (a) alleviating the liquidity constraints of non-bank financial institutions that are the main financial service providers to smallholders and rural micro-enterprises, and (b) encouraging small-scale farmers and micro-firms to invest in climate-smart and environmentally friendly activities while promoting gender-equitable access to finance. The GFF initial investment by RK-FINFA is US$ 20 million and it is expected to reach out to about 30,000 rural households through micro and small-scale loans. The GFF will be established as a permanent facility at a selected Host Financial Institution to provide wholesale capital to rurally oriented SACCOs and MFBs/MFIs, for on-lending to the smallholder sub-sector and rural micro-enterprises, targeting 50 per cent women and 30 per cent youth.

<u>Component 3: Enabling Rural Finance Environment and Project Coordination.</u> This component is divided into two sub-components: 3.1. Enabling Rural Finance Environment and 3.2. Project Coordination.

Sub-component 3.1. Enabling Rural Finance Environment. The aim of Sub-component 3.1 activities is to promote policies and institutional arrangements that support the medium and longer-term development of a more conducive operational environment for the Rural Credit Guarantee Scheme and the Green Financing Facility, therefore, fostering their capacity to improve rural financial intermediation through their increased rural outreach and impact to IFAD target groups including smallholders, women and youth.

Sub-component 3.2: Project Coordination. The Lead Implementing Agency of RK-FINFA will be the Directorate of Budget, Fiscal and Economic Affairs in the National Treasury and Planning (NT&P). The Directorate is headed by a Director General who is answerable to the Principal Secretary of the NT&P. The Project Management Unit (PMU) of RK-FINFA will be established at the NT&P, housed in the Financial and Sectoral Affairs Department. The key technical service and investment components of the project are planned to be implemented through intermediaries or co-financing partner institutions with proven capacity and appropriate institutional mandate.

Social, Environment and Climate Assessment. The environment and social categorization of the RK-FINFA is B according to IFAD's Social, Environment and Climate Assessment Procedures (SECAP). This categorization recognises the environmental risks that may result from the project activities, particularly the end line investments by smallholders and rural MSMEs, will be in non-sensitive areas and can be avoided and/or minimized with appropriate actions. The ESMF, prepared for RK-FINFA, provides screening guidance to ensure that interventions supported by the Project retain this categorization. Thus, any activities/interventions that are likely to have high risk will be screened out at early stage, prior to any approval for financing. The climate risk classification of RK-FINFA is "Moderate" given that the target end beneficiaries, their livelihoods and their economic activities are exposed to climate-related risks such as floods, droughts and incidence of pests and diseases. Green financing initiatives will be financed through the GFF to promote climate change adaptation and resilience.

Project costs and financing. Of the projected US$ 134 million total RK-FINFA budget, the IFAD loan is projected to finance US$ 22 million, from IFAD11 PBAS allocation, accounting for 17 per cent of the total project costs. Co-financing from participating financial institutions is estimated at US$ 85.75 million, covering 64 per cent of the total project costs, mainly due to the leverage in loan guarantee operations. The GoK contribution is budgeted to cover US$ 24 million in cash and kind, covering 18 per cent of the total project costs, with over half of it financed with the PROFIT reflows. The share of co-financing from non-government sector implementing partners is US$ 2.3 million, or two per cent of the project costs. RK-FINFA climate finance is estimated as US$ 12.77 million, which is 58% of total IFAD project costs and only includes adaptation finance. For women and youth, dedicated amounts of 50 per cent of and 30 per cent of GFF financing and R-CGS financing are earmarked respectively. This equals to US$ 40 million of investments. The cost of implementation of the ESMF is estimated to be approximately US$ 466,000, for which provisions are already made in the RK-FINFA budget.

Financial and economic analysis. Nineteen illustrative farm/enterprise models have been developed to examine the potential actors to benefit from improved financial outreach and the related efficiencies. All models were found financially viable and able to seek additional RK-FINFA supported funds. Incremental returns to labour provide a sound incentive to households to increase production and/or productivity. The overall RK-FINFA economic internal rate of return (EIRR) is 23 percent. The BCR of 2.2 indicates a return of US$ 2.2 for every dollar invested. These results indicate that the project is a sound investment yielding a positive rate of return as the EIRR is greater than the hurdle rate (13 per cent) and the ENPV is greater than zero.

Implementation Readiness and Start-up Plans. A draft Project Implementation Manual (PIM) has been prepared as a part of the RK-FINFA design process. In addition, a draft Annual Work Plan and Budget and a draft procurement plan have been prepared for the first 18 months of project implementation. These documents aim to ensure that the project implementation starts without unnecessary delays during the first year of the project. Various pre-project activities, including the preparations for the documentation of the partnership agreements and for the tendering of the technical service providers, are planned to start immediately after the project approval by IFAD and GoK, to support a fast and smooth start of the RK-FINFA implementation immediately after the project effectiveness.

1. Context

A. National context and rationale for IFAD involvement

a. National Context

1. **Political, Economic and Social Context.** The Republic of Kenya(hereafter referred to as 'Kenya') covers a land area of 569,259 square kilometres. Its population was 47.5 million in 2019[1], which is projected to grow to around 85 million by 2050.[2] Kenya is classified as lower middle-income country, with an estimated GDP/capita at around US$2,000 at the end of 2020. Significant political, structural and economic reforms have largely driven sustained economic growth, and social development, over the past decade. These include a new Constitution in 2010, and devolution of the government system. It is to be recalled that the next general elections are scheduled in 2022.

2. Over the last decade, Kenya's economy has grown rapidly. Average annual GDP growth, from 2010 to 2019 was 5.85 per cent, supported notably by a friendly business climate, strong public infrastructure spending and increased regional trade.[3] However, to sustain the achieved growth levels is challenging. Indeed, while the economy has performed generally well, public debt has rapidly increased and currently surpasses the standard risk levels. In September 2020, public debt to GDP ratio reached an all-time high at 68.6 per cent, after a continuous increase from the 2012 level of 38.2 per cent.[4] Given the need for fiscal consolidation and lower public spending, the Government of Kenya's (GoK) policy objective is to proactively encourage private sector investment, including in agriculture.

3. The relatively fast growth, since 2000, has translated into gains to reduce poverty. Indeed, between 2005/6 and 2015/16.[5], poverty, measured as people under the national poverty line, declined from 46.8 per cent to 36.1 per cent of the population. Poverty declined in rural areas, from about 50 per cent in 2005-06 to 38.8 per cent in 2015-16, largely accounting for the reduction at the national level. This was due to the increasing importance of non-agricultural income (particularly commerce) to supplement agricultural income for rural households, which has been supported by the expansion of mobile money and the telecommunication revolution. This notwithstanding, corruption remains a serious challenge for sustained growth and effective policy implementation and according to Transparency International estimates, Kenya is losing about 7.8 per cent of GDP, annually, to corruption, despite some improvements in recent years in corruption prevention actions. According to the UNDP's 2020 Human Development Index, Kenya scored 0.601, ranking it 143rd out of the 189 surveyed countries.[6]

4. **Impact of COVID-19.** Kenya's economy has been hit hard by COVID-19, as the containment measures and behavioural responses have significantly dampened domestic activity with trade, travel, tourism, and export-oriented agriculture being severely disrupted. Real GDP contracted by 0.4 percent in the first half (H1) of 2020 year-on-year, compared to growth of 5.4 percent in H1 2019. Household incomes in the worst affected sectors declined sharply and it is estimated that over two million people in Kenya have fallen back into poverty as a result of COVID-19.[7] Most baseline projections assume that the major economic impacts of the pandemic in Kenya will largely wane by mid-2021, with a strong rebound in real GDP, particularly with weather conditions expected to support agricultural output. However, this outlook remains highly uncertain. The fact that a significant proportion of the population is foreseen to be vaccinated only by 2024[8] suggests a scenario that the socio-economic impacts of COVID-19 will continue over the medium term and possibly even the long term, covering much of the planned RK-FINFA implementation period.

5. **Agricultural Performance, Policy and Transformation**. Agriculture continues to play a vital role in the Kenyan economy, contributing 26 per cent of the GDP and another 27 per cent of GDP indirectly, through its linkages with other sectors. This sector employs more than 40 per cent of the total population and more than 70 per cent of Kenya's rural population. Agriculture accounts for 65 per cent of the export earnings.[9] The sector also plays an important role in food security. Farming is predominantly rain-fed, with only 2 per cent of agricultural land under irrigation. Kenyan agriculture is dominated by smallholder production of farms between 0.2 and 3 hectares. Nearly 70 per cent of farmers operate on less than one hectare of cultivated land.[10]

6. Over the past two decades, the performance of smallholder agriculture in Kenya has been modest. Yields for most crops and livestock have stagnated and total factor productivity for agriculture dropped by 10 per cent between 2006 and 2015. Value addition within the sector remains low, with only 16 per cent of exports currently being processed.[11] The GoK's efforts to strengthen agricultural performance are presented in the Agriculture Sector Transformation and Growth Strategy (ASTGS 2019-2029), anchored in three outcomes: (i) increasing small-scale farmer, pastoralist, and fisher incomes; (ii) increasing agricultural output and value addition; and (iii) boosting household food resilience.[12]

7. The GoK acknowledges that the ASTGS 2019-2029 needs to be implemented as much as possible through the private sector for sustainability.[13] Kenya's vibrant agribusiness sector would be a powerful engine in this agricultural transformation process. Private-sector FIs, including commercial banks, SACCOs and MFIs, would provide the bulk of resources to finance the process at all levels of the value chains (VC). Development funding would be used to pro-actively stimulate the interest of the FIs to expand their agricultural and rural operations. The proposed RK-FINFA would be one of the instruments aiming to ensure that

appropriate and adequate financial services would be available for the planned transformation and growth of the rural economy in Kenya. RK-FINFA would also contribute to Kenya's *Green Economy Strategy and Implementation Plan (GESIP 2016-2030),* which firmly embeds the principles of sustainable development in the overall national growth strategy. The identified enabling conditions in the strategy include sustainable financing and creation of green, decent jobs with a recognition of the key role of the private sector and FIs in provision of innovative products and services to support the green economy.

8. **Financial Sector and Rural Finance (RF).** The Kenyan financial inclusion landscape has undergone a major transformation, with formal financial inclusion reaching 82.9 per cent in 2019 from 26.7 per cent in 2006.[14] However, this transformation is driven by information and communications technology, (ICT), particularly the fast growth of mobile money services, and not by an increase in deeper financial inclusion. The increased access to finance has mainly focused on use of mobile payments and money transfer services. At end of 2020, the number of mobile banking accounts reached 66 million, surpassing the total population. In credit services for productive purposes, however, similar trends have not emerged. The introduction of policies such as the interest rate cap on loans in 2016 led to credit misallocation, with commercial banks shifting from lending to the private sector, especially to MSMEs, to investing in government securities. This decline is further confirmed by the World Bank (WB) Enterprise Surveys, where the proportion of small firms identifying access to finance as a major constraint jumped from 15.1 percent in 2013 to 32.3 per cent in 2018.

9. Kenya has a number of policies and strategies to guide its financial sector (re. Table 1)

Table 1. Key Strategies/Policies/Regulations

Strategies/Policies/ Regulations	**Relevance to RF**
SACCO Societies Act (2008)	Regulates rural SACCO operations
DT-MFI Regulations (2008)	Regulates DT-MFI operations and established the category of Microfinance Banks
Kenya's Vision 2030	Promote an innovative, commercially-oriented and modern agricultural sector, including through improved rural financial services
Sector Plan for Financial Services (2013–2017)	Developed to establish a clear strategy for development of the financial services sector as part of the Vision 2030 Economic Pillar
Draft National Treasury and Planning Strategic Plans	Supports a well functioning digital finance market
The SACCO Societies (NDT) Regulations (2020)	Establishes regulations and guidelines for non-deposit taking SACCO operations
Public Finance Management (Credit Guarantee Scheme) Regulations (2020)	Establishes the management structure and regulatory framework of the national Credit Guarantee Scheme for Micro-, Small and Medium Enterprises
Credit Information Sharing System (CIS) Regulations (April 2020)	The Interest Rates Capping Law was repealed in November 2019 and replaced by the CIS enabling: (i) market-determined credit pricing, and (ii) improved consumer protection within a market-driven framework.

10. **Key actors** for the provision of working capital and investment loans to the agricultural sector and rural MSMEs are: (a) commercial banks, (b) savings and credit cooperative societies (SACCOs), and (c) microfinance institutions (MFIs).

11. ***The commercial banking sector***, consisting of 41 institutions, accounts for 65 per cent of the total financial sector assets. The Kenyan banking sector remains stable, well-capitalized and posted an average annual growth of eight per cent in asset base and deposits in the period 2014-2019.[15] Despite their strong liquidity, lending by commercial banks to agriculture remains low at around four per cent of their total portfolio and focuses mainly on large production and processing units. Provision of commercial credit towards agriculture is constrained primarily by[16]: (a) real and perceived risk, (b) limited collaterals, (c) high service costs, (d) small deal sizes, (e) lack of credit history data, (f) low FI capacity in agricultural lending, and (g) limited market attractiveness relative to perceived higher returns outside of the agriculture sector. Increased stresses on the banks due to COVID-19 have further reduced the interest and capacity of banks to lend to agriculture and rural MSMEs.

12. ***The Savings and Credit Cooperative*** sector is one of the largest in Africa and critically important in smallholder and rural MSME financing. SACCOs are further classified into non-deposit-taking SACCOs (non-DT-SACCOs) and deposit-taking

SACCOs (DT-SACCOs). *Non-DT-SACCOs* accept long-term deposits from their membership which cannot be withdrawn unless a member leaves the SACCO membership. They do not take deposit from the general public. The number of non-DT-SACCOs exceeds 3,000 and they report on their activities to the Commissioner for Co-operative Development. *DT-SACCOs*, in contrast, perform bank-like functions, accept deposits through their front offices, and provide loans to their clients as standard banking institutions. DT-SACCOs are prudentially regulated by the SACCO Societies Regulatory Authority (SASRA). At the end of 2019, there were 172 DT-SACCOs operating in Kenya. DT-SACCOs hold a high 13 per cent share of Kenya's total financial sector portfolio. Particularly important for RF operations are the 49 farmer-based DT-SACCOs, with the membership of 2.25 million farming households. This represents 52 per cent of the total DT-SACCO membership, while their deposit share is only 13 per cent of the total DT-SACCO deposit, clearly indicating a liquidity constraint for their portfolio expansion.

13. ***The microfinance sub-sector*** consists of two parts: (a) 14 Microfinance Banks (MFBs), which are regulated by the Central Bank of Kenya (CBK); and (b) about 60 non-deposit taking, credit-only MFIs. *The MFBs are deposit-taking MFIs* regulated by the CBK, with the two largest ones (KWMFB and Faulu MFB) sharing about 76 per cent of the MFB market. The largest one, KWMFB has over 800,000 women clients, a large predominantly group-based rural low-income clientele and a diversified and growing agricultural portfolio, using targeted approaches and products to reach women clients. *The credit-only MFIs* operate outside the CBK and SASRA-type of prudential regulations. They raise their lending capital from grants and through wholesale loans from development lenders. Some of them have substantial rural portfolios and smallholder clienteles, with pro-active outreach plans for rural lending.

14. Overall, there is adequate liquidity in the financial system, but this masks significant liquidity concentration and the uneven distribution of liquidity among different types of FIs. In a weak position are the SACCOs and MFIs/MFBs serving the smallholders and rural MSMEs. In addition to limited deposit bases, their capacity to borrow on-lending funds from liquid commercial banks remains weak, as the banks actively seek safer investment opportunities. COVID-19 has further affected their operations: as members' income streams have declined and become more irregular, savings levels by low-income households have declined and loan repayments delayed. In this context, the use of development finance to stimulate short-term recovery funding and longer-term investment funding is important for the effective recovery and sustained longer term economic growth.

15. **Demand for Rural and Agriculture Finance** is insufficiently met in Kenya. Against the government target of 10 per cent, the agriculture sector investments represent only 4 per cent of overall financial sector portfolio.[17] Only about 3.2 per cent of Kenyan farmers secure loans through formal FIs to finance their agriculture activities, although 29 per cent of rural households in general access bank/MFB broader range of services. The primary sources of households' financing to agriculture investments comprise savings, sales of assets, support from family and friends, as well as the widespread informal financial services such as the expensive loans from moneylenders and shopkeepers. Key obstacles to accessing formal FI lending include: (i) limited understanding of the application processes, (ii) existing debt, (iii) lack of guarantors or collateral, (iv) limited or bad credit history and accounting records, and (v) insufficiently demonstrated income or savings.[18]The November 2020 World Bank Kenya Economic Update[19] confirms the accelerating unmet demand for MSME, rural and agriculture finance in the aftermath of COVID-19. It proposes interventions to support financial institutions to maintain and expand their productive investment portfolios. The proposed instruments include targeted liquidity support and credit guarantee facilities.

16. During the RK-FINFA design process, a dedicated RF institution survey (see PIM Appendix 2) and consultations with IFAD-supported value chain (VC) project stakeholders validated the strong unmet demand for agricultural and RF. IFAD's ongoing Kenya portfolio of value chain projects[20], amounting to US$ 241 million of IFAD financing, focuses on overall agricultural technology and market development, while the specific element of access to finance was confirmed as a remaining key constraint. The RK-FINFA geographic targeting is aligned with this demonstrated demand among the supported VC stakeholders.

17. In particular for green finance instruments and portfolios, FIs and VC stakeholders indicated a high potential and interest for their development and expansion. Banks, SACCOs and MFBs have already initiated green lending products within their mainstream portfolios and have a demonstrated demand as well as ambition for scaling-up this activity. However, they do not yet have adequate resources, internal capacities nor the tools to monitor and demonstrate details of their progress in this financing area.

b. Special aspects relating to IFAD's corporate mainstreaming priorities

18. **Environment and Natural Resources.** Rural livelihoods are dependent on natural resources and the environment. Halting and reversing the degradation trends requires investments in environmentally friendly technologies and increased resource use efficiency across economic sectors, as articulated in Kenya's GESIP (2016-2030). GESIP highlights the need for valuation of the natural asset base and scaled-up mechanisms of payment for ecosystem services as contributors to the transition to a green economy, which also fosters fewer harmful emissions and less waste generation. The adoption of the technologies and efficiency gains requires policy level interventions, adequate financial resources and bridging of traditional and scientific knowledge. The GoK has started a drive to improve adoption of renewable energy technologies, including in the agriculture sector. As part of GESIP, FIs are expected to develop and provide innovative products and services, which support green economy entrepreneurs and enterprises.

19. **Climate Change (CC).** Climate shocks, such as floods and droughts, projected to become more frequent and intense with CC, adversely impact rural livelihoods and economic activities. Climate shocks may also affect the ability to repay loans, particularly those linked to the agricultural sector. Financial services (insurance, savings, emergency relief, lines of credit) offered at reasonable prices and fair terms can help vulnerable households prepare for and improve ability to manage and recover from climate shocks (CGAP, 2019).[21] The financial resources required for managing and recovering from shocks are significant. Kenya's updated Nationally Determined Contributions (NDC, 2020) estimates that US$62 billion is required to address the priority mitigation and adaptation needs by 2030. The priorities include promoting green investments and nature-based solutions and

enterprises, climate smart agriculture (CSA), as well as clean and efficient livelihood strategies, which enhance climate resilience of communities, through investments in locally led climate adaptation actions. The role of the private sector in climate actions is recognized in the Climate Change Act (2016), which provides incentives and obligations for the actors to contribute towards achieving the 2030 Vision, through a low carbon, climate resilient development resilient pathway.

20. **Gender equality and women's empowerment (GEWE).** Kenya's progress in the advancement of GEWE includes the 2010 Constitution, Vision 2030 and national gender policies that clearly support increased gender equality. The Public Procurement Act (2015) reserves 30 per cent of public procurement opportunities for women, youth and persons with disabilities. The public Credit Guarantee Scheme Regulations for MSMEs require a minimum of 30 per cent of the covered loans to be issued to the same disadvantaged target group. The World Economic Forum's Global Gender Gap Index 2020 ranked Kenya at 109th out of 153 countries with a score of 0.671[22]. Nevertheless, socio-cultural norms and attitudes continue to disadvantage female farmers and entrepreneurs in the rural sector. Unequitable intra-household power relations and control over resources limit their decision-making power.

21. In particular, access to finance for rural women is negatively impacted by unequal access to land and other collateral, and by the perception of lacking management skills among women especially in rural areas. Women typically receive less than 10 per cent of formal credit to smallholders and only 1 per cent of formal credit to agriculture, and instead rely on informal sources. This limits women's economic development and is one of the root causes of poverty. See more details in the SECAP and PIM documents.

22. **Youth.** Kenya's population is largely young, with 35.7 million Kenyans (75.1 per cent) below the age of 35 years. This potential demographic dividend is yet to be fully harnessed with youth unemployment rate exceeding the overall unemployment rate in Kenya. Youth employment is negatively impacted by limited working experience, life-skills, vocational skills, leadership skills, entrepreneurial and management skills; and lack of productive resources including land or capital to start own ventures. The Kenya Youth Agribusiness Strategy (2017) positions youth at its forefront.[23] It has been observed that improved access to finance leads to increased participation of young people in the agriculture value chains, especially as off-farm entrepreneurs, intermediaries, brokers and market-information agents. However, youth are 33 per cent less likely to have a savings account than adults and 44 per cent less likely to save in a formal institution[24]. Challenges affecting youth access to finance include limited financial literacy skills, limited income, lack of a savings culture, lack of access to land and assets, negative perceptions by financial institutions, and lack of suitable products. See more details in the SECAP and PIM documents.

23. **Nutrition.** In Kenya, the national prevalence of under-five stunting is 26.2 per cent, compared to developing country average of 25 per cent. The most direct causes are inadequate nutrition (not eating enough or eating foods that lack growth-promoting nutrients), traditional dietary practices particularly in pastoral communities and recurrent infections or chronic or diseases which cause poor nutrient intake, absorption or utilization. Malnutrition is more likely in families headed by women, among pregnant women, among women with children under five, and people with vulnerabilities such as HIV/AIDS. Kenya is committed to meeting the global targets for nutrition, as articulated in the ASTGS 2019-2029. For progress in this area, investing in agriculture is key factor, as food insecure families who typically live in rural areas, depend on subsistence farming for food and incomes.

24. **Indigenous and marginalised groups.** The peoples who identify with the indigenous groups in Kenya are estimated to number approximately 79,000 and are found among the pastoralist communities mainly living in the ASALs. They experience land and resource tenure insecurity, poor service delivery, weak political representation, as well as general discrimination and exclusion.[25] Marginalised groups also include Persons Living with HIV and AIDS and Persons with Disabilities (PWDs), who are estimated to represent around 4.6 per cent of the whole population in Kenya. More PWDs live in rural than in urban areas. A quarter of PWDs work on family farms or MSMEs, but about one-third are unemployed.[26] As the other marginalised people, PWDs often face challenges in accessing education, health care and financial services and are vulnerable to food insecurity and hunger.

Table 2. Mainstreaming theme eligibility criteria

	☐ **Gender transformational**	☐ **Nutrition sensitive**	☒ **Youth sensitive**	☒ **ENR and Climate focused**
Situation analysis	☐ National gender policies, strategies and actors ☐ Gender roles and exclusion/discrimination ☐ Key livelihood problems and opportunities, by gender ☐ Use(pro-WEAI)[1] assessment for M&E baseline	☐ National nutrition policies, strategies and actors ☐ Key nutrition problems and underlying causes, by group ☐ Nutritionally vulnerable beneficiaries, by group	☒ National youth policies, strategies and actors ☒ Main youth groups ☒ Challenges and opportunities by youth group	☒ National environmental and climate change policies, strategies and actors ☒ Key issues and underlying causes of environmental impacts and climate stress ☒ Challenges and opportunities to improve ENR sustainability and CC resilience

Theory of change	☐ Gender policy objectives (empowerment, voice, workload) ☐ Gender transformative pathways ☐ Policy engagement on GEWE[2]	☐ Nutrition pathways ☐ Causal linkage between problems, outcomes and impacts	☒ Pathways to youth socioeconomic empowerment ☒ Youth inclusion in project objectives/activities	☒ ENR and CC policy objectives ☒ ENR and CC transformative pathways ☒ Linkages between problems, outcomes and impacts
Logframe indicators	☐ Outreach disaggregated by gender ☐ Women are >40% of outreach beneficiaries ☐ Pro-WEAI indicator[3]	☐ Outreach disaggregated by gender, youth, indigenous peoples ☐ Women reporting improved diets **AND/OR** Persons reporting improved nutrition knowledge	☒ Outreach disaggregated by age	☒ 100% financed institutions have established ESMS
Human and financial resources	☐ Staff with gender TORs ☐ Funds for gender activities ☐ Funds for Pro-WEIA surveys in M&E budget	☐ Staff or partner with nutrition TORs ☐ Funds for nutrition activities	☒ Staff with youth-specific TORs ☒ Funds for youth activities	☒ Staff with ESC TORs ☒ Funds to implement ESMS

25. [1] Project level Women's Empowerment in Agriculture Index

26. [2] Gender Equality and Women's Empowerment

27. [3] To be provided by ECG.

28. [1] Project level Women's Empowerment in Agriculture Index

29. [2] Gender Equality and Women's Empowerment

30. [3] To be provided by ECG.

c. Rationale for IFAD involvement

31. IFAD's main rationale for its involvement and investment in RK-FINFA derives from the increasing unmet demand for rural and agriculture finance and the core development objectives that IFAD and the GoK share on rural and agricultural development in Kenya. The COSOP for Kenya 2020-2025, anchored on the same premises as ASTGS 2019-2029, focuses notably on developing the rural sector in a sustainable manner, through private sector FIs. Development funding would be used to pro-actively stimulate the interest of the FIs to expand the volumes and outreach of their agricultural and rural operations.

32. The RK-FINFA would be one of the instruments to support appropriate and adequate financial services made available for Kenya's rural transformation and growth. In the wake of COVID-19, the need for this strategic development support is even greater, to initially improve the chances of fast rural recovery and then later boost the sustained growth of the sector and building back better. At the same time, to respond to GoK's and IFAD's agendas on climate change adaptation/mitigation and improve environmental management and efficiencies in the use of natural resources, RK-FINFA would pro-active encourage the mainstreaming of green finance activities when sustainably transforming the rural sector in Kenya.

33. IFAD is strongly positioned to provide solutions to the obstacles for rural finance market development in Kenya, due to its: (i) long experience in supporting Kenya's RF sector; (ii) strong global capacity of acting as a broker between the financial sector operators, smallholder farmers and MSMEs; (iii) track record in supporting the development of innovative financial instruments; (iv) growing experience in green finance innovative solutions; and (v) the opportunity to build synergies with the four on-going IFAD-supported VC programmes in Kenya: KeLCoP, ABDP, UTaNRMP and KCEP-CRAL.

34. RK-FINFA is designed, based on a longer-term programming approach and the development of financing facilities, which can operate on a sustained basis, beyond the duration of the planned project period. It is a framework through which international and bilateral development partners, beyond IFAD, can invest into market-led equitable and green rural development without spending additional funds on design, implementation, and management costs. Based on experience in other countries, this feature can significantly increase the returns from the now proposed initial RK-FINFA investment.

B. Lessons learned

35. The RK-FINFA design process has been informed by lessons learned and best practices from: (a) previous IFAD experiences in Kenya; (b) results from IFAD projects in other countries of the region; and (c) similar projects financed by the GoK or other develop partners in the country. Particularly relevant have been the experiences from the implementation of the IFAD-supported and recently closed Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT[30]). The key lessons can be summarised as:

- The provision of technical support services (TSS) to PFIs should start immediately after the PFI selection and the TA functions need to be aligned and well targeted so that TA to PFIs, MSMEs and farmers are provided in synergy.[31]
- RF Project Management Unit (PMU) and the implementing partners must have adequate capacity and assigned institutional roles for the designed RF instruments.[32]
- The key investment instruments should be implemented through specialized intermediaries based on operational guidelines.[33]
- Appropriate eligibility criteria for both PFIs and final borrowers in the RK-FINFA financed operations should be included in the design.[34]
- Targeting framework including geographical targeting and outreach to smallholders, women and youth should be drafted and agreed upon at the design stage of the project and confirmed through subsidiary agreements with the PFIs.[35]
- PFI reporting should be based on indicators that the financial institutions collect as a part of their standard operations, focusing on detailed transaction and portfolio data.[36]
- To ensure an effective exit strategy for the project and a long-term impact of its investments, the project design and loan negotiations should cover in detail the longer-term sustainability aspects of the supported facilities.[37]
- For procurement, a dedicated specialist as part of PMU should closely monitor, review and approve the procurement processes for implementing partners to ensure conformity and consistency with IFAD's/GoK's procurement procedures.

2. Project Description

C. Project objectives, geographic area of intervention and target groups

36. **The project goal** of the proposed RK-FINFA is: "*poverty reduction, climate change resilience and improved livelihoods in rural areas*".

37. **The Project Development Objective (PDO)** of RK-FINFA is: "*increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth*".

38. **Geographic area of intervention.** The geographic coverage of RK-FINFA, once fully operational, will be nationwide. However, for an effective project start-up, the entry point for the RK-FINFA outreach will be the 14 counties in which at least two IFAD-financed projects support agricultural value chains[38]. The RK-FINFA capacity building will target these counties, and the first round of investment instrument roll out will take place in this target area. With this approach, RK-FINFA and its Participating Financial Institutions (PFIs) will benefit from synergies with earlier IFAD-supported value chain development activities, and the financing can be focused on diversified value chains.

39. After the RK-FINFA capacity building and initial financing cycle, starting from Project Year 3, the PFIs will be able to expand their targeted area of investments, with RK-FINFA resources, to any other rural county in Kenya. The PFIs will identify these expansion areas based on their market opportunities and capabilities, while continuing to apply the agreed targeting principles of the project. This geographical roll-out for each PFI will only start after their full development of the lending products and monitoring systems, as required by RK-FINFA.

40. **Outreach.** The project will benefit 190,000 rural Kenyan households, including both direct and indirect clients. This includes direct financial and technical services to 68,000 households/MSMEs, covering: (i) an estimated 66,000 economically active smallholder households; and (ii) 2,000 rural MSMEs engaged in smallholder-inclusive VCs. Considering the average household size of 4.7 persons in rural Kenya, this corresponds to 319,600 total household members. In addition, the project will engage with an estimated five commercial banks, five MFBs and 30 SACCOs, which are not included in the estimated number of programme beneficiaries.

41. Indirect outreach of the project includes: (i) estimated 32,000 persons through employment in the RK-FINFA supported agribusinesses and farms; and (ii) 90,000 smallholder households through participation in the VCs strengthened by the supported agribusinesses.

42. **Targeting Strategy and Beneficiary Profiles.** The RK-FINFA targeting strategy is based on the beneficiary profiles applied in the on-going IFAD-supported VC projects. The focus is on low-income, economically active rural households, with specific targets on women and youth. The PIM of RK-FINFA includes comprehensive strategies for gender and youth targeting, as well as nutrition linkages of RK-FINFA. The RK-FINFA target counties are exposed to environmental degradation and climatic shocks such as droughts and floods, which impact the livelihoods of the communities and economic activity in these areas. Therefore, improved environmental management and climate change resilience-related objectives will be integral parts of the project strategy. The RK-FINFA beneficiary profiles include:

- ***Smallholders***[39] ***and rural microenterprises***[40] in the project target areas with limited access to financial services and products due to lack of adequate business skills, limited access to markets and lack of collateral assets. The composition of this core target group is specified by demand for the RK-FINFA micro- and small financing packages, including willingness to implement the green finance products to increase rural climate change resilience. This category of beneficiaries represents about 90 per cent of the total number of beneficiaries, and will include 50 per cent women and 30 per cent youth.
- ***Under-employed rural men, women and youth*** with no access to land or assets beyond their skills and time. The project will support them to seek employment in the VCs as seasonal workers in the farms and full time workers in the supported SMEs, including service providers, input material suppliers, processers, logistics and sales. This group represents about 10 per cent of RK-FINFA beneficiaries.
- ***Agribusiness-SMEs***[41] that have viable market-oriented business models with potential to create jobs and opportunities for smallholders.[42] Due to risks inherent in the agriculture sector, as well as insufficient business planning capacities, they have limited access to finance to expand their operations and employment creation in the VCs. All RK-FINFA supported SMEs are involved in and promote smallholder-inclusive value chains and provide employment in the RK-FINFA's targeted rural areas.

43. **Gender equality and women's empowerment (GEWE).** RK-FINFA will support the development of technical support services and financial products that target female farmers and micro-entrepreneurs informed by a gender assessment to understand barriers to women's access to financial services and recommend solutions through the gender strategy. 50 per cent of RK-FINFA supported financial services will target women. This will be achieved through three RK-FINFA gender mainstreaming pathways and strategies which are described in detail in the PIM section for Gender Strategy, and in summary entail support to:

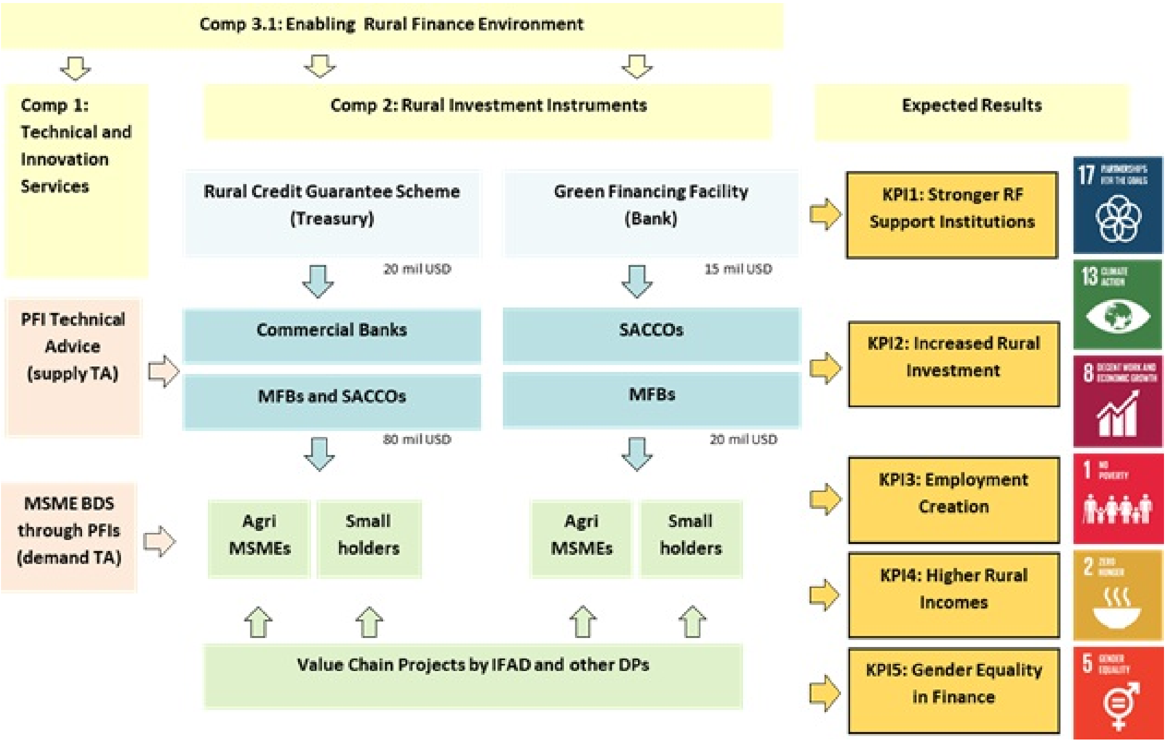
- **Women economic empowerment**. Through the TSIS services, Rural Credit Guarantee Scheme (R-CGS) and the Green Financing Facility (GFF), RK-FINFA will offer targeted technical support services and investment instruments targeting women-owned MSMEs.
- **Increase women's decision-making power and leadership** at household and community level by improved skills, knowledge and control over resources. RK-FINFA will in particular support trainings in gender-sensitive financial literacy and business planning to reduce inequalities between men and women over financial decision making.
- **Balanced and reducing workloads of women.** Through TSIS and GFF, women will be supported to prepare investment plans for adoption of new smart technologies and labour saving solutions such as renewable energy kits and water harvesting.

44. **Youth empowerment.** The RK-FINFA targeting strategy ensures that youth represent at least 30 per cent of overall project beneficiaries. A detailed youth needs assessment will be incorporated into the project baseline study. Youth Targeting Guidelines for the detailed project activities, is presented in the PIM, including aspects of: (i) development of youth friendly products and strategies by PFIs, (ii) scaling up digital solutions to positively impact rural young women and men access to finance, (iii) youth-focused capacity building on financial literacy and business development training, (iv) identification and selection of PFIs and Technical Service Providers (TSPs), which have youth focussed lending and training products, as well as use of youth as agents and educators in project activities.

D. Components/outcomes and activities

45. To achieve the RK-FINFA Project Goal and Development Objective, the project activities are structured into three mutually reinforcing components: (a) Component 1:Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination. The TSIS operations of the first component will start with each PFI, prior to allocation of investment resources through the second component. Diagram 1 presents the overall structure, the relationship between the different activities and stakeholders, and the expected results.

Diagram 1: RK-FINFA Technical Components and Expected Results



Component 1: Technical Support and Innovation Services (TSIS)

46. Through two fully inter-linked sub-components, the RK-FINFA TSIS will: (i) strengthen Participating Financial Institution (PFI) capacities for innovation, rural outreach and green finance services in Kenya, and (ii) build MSME and smallholder sustainable investment capacities and financial literacy skills. Both aspects of the TSIS, *supply and demand side*, will be embedded into the rural growth strategies of the PFIs to foster sustainability and scalability and support the effective use of the resources provided through the project's Investment Instruments component. The viability of the approach has been vetted through interviews of potential PFIs including six banks[43], five MFBs[44] and a number of SACCOs.[45]

47. Co-financing partner organization(s) are sought to coordinate the TSIS component on behalf of the National Treasury (NT) as "the TSIS Coordinator"[46], and co-finance the coordination cost. In addition to this additional budget, the selected partners will bring to the project a comparative advantage in coordination of technical services and promotion of innovations in the RF sector. The partners will work under the supervision and oversight of the RK-FINFA PMU. The RK-FINFA's Project Implementation Manual (PIM) provides a description for the TSIS Coordinator selection, onboarding, tasks and responsibilities.

48. The TSIS thematic areas will vary for each PFI. The supply side technical service packages depend on the PFI type (bank, MFB, SACCO), the level of PFI development, specific needs in its rural growth strategy, and the types of innovations the PFIs wish to pursue to increase their rural outreach. The demand side package is specified based on each PFI's identified target value chains and geographic areas.

49. As the first step at RK-FINFA start-up, the project's implementing partners will advertise its offered support instruments broadly among Kenyan financial institutions. The communication will include direct contacting of FIs and utilization of platforms such as the SACCO associations, the MFI association, the bankers' associations, the UN SDG platform, and other forums in Kenya. Interested financial institutions are requested to submit their Expressions of Interest (EoI) to partner in the RK-FINFA implementation including the technical services and investment instruments.

50. The EoIs will follow a pre-defined RK-FINFA template, through which candidate PFIs will have to detail their proposals including: (i) overall FI rural and green finance strategy, (ii) proposed use of RK-FINFA support resources including innovations for rural outreach, (iii) target geographic areas, VCs, investment types and products, (iv) projected utilization volume of RK-FINFA financial instruments, (v) details of proposed TSIS utilization including topics, preferred TSPs and level of co-financing, (vi) statement of the FI financial performance, commitment, capacity to sustainably absorb and manage the RK-FINFA instruments, MIS capability and MIS development requirements, and finally (vii) the PFIs' Environment and Social Management Systems (ESMS) including designated staffing in the PMU to oversee ESC aspects (Social Inclusion Officer and Environment and Climate Change Officer), monitoring systems, incident reporting templates and channels.

51. The RK-FINFA TSIS Coordinator will conduct an assessment of the received EoIs. The results of the assessment and recommendations for PFI selection to the TSIS pipeline will be submitted to the PMU for approval, and subsequently shared with IFAD for no-objection. Upon approval and admission of the PFIs into the TSIS pipeline, the TSIS services will be launched by mobilization of a local specialized TSP, jointly identified with the PFI. Subsequently the PFI will apply for financial resources through RK-FINFA Sub-components 2.1 and 2.2 for implementation of the proposed rural and agriculture finance strategy and innovation. If the application to financial instruments is not successful, the TSIS package implementation will be discontinued. The project will repeat its call for EoI bi-annually until the completion of the pipeline for RK-FINFA TSIS implementation.

52. The PFIs will co-finance the TSIS costs in cash at a minimum level of 20 per cent for the commercial banks, 15 per cent for the

MFBs and 10 per cent for SACCOs, to ensure ownership. The TSIS will need to be operational with a selected PFI *prior* to its application to implement the Component 2 Investment Instruments.

53. **Sub-component 1.1: PFI Capacity Building for Rural Outreach and Innovation.**

54. The PFIs will be provided with a demand-driven package of technical support and innovation services (TSIS) aimed at helping the PFIs to develop and offer appropriate financial services, manage risk of lending to the rural/agriculture sector and reduce transaction costs, with particular focus on women, youth and green financing. The expected outputs include: (i) the capacity of five participating commercial banks, six MFBs and 30 DT-SACCOs improved to provide rural and agriculture financial services; (ii) the capacity of all 41 PFIs built to implement and monitor green investment portfolios; and (iii) Environmental, Social and Governance (ESG) systems operationalized/ strengthened by 41 PFIs.

55. Through the EoIs, the PFIs will have identified and proposed key technical support areas to expand their rural outreach and agriculture finance. The RK-FINFA technical support packages will be tailored for the needs of each PFI. Potential PFI capacity building technical support areas will include:

- *Green Finance* strategy, products and toolkits developed for each PFI participating in the GFF, including a taxonomy and monitoring framework.
- Introduction of *smallholder and VC digital platforms* present in Kenya, to enable data driven, affordable and effective risk management of agriculture loans.
- *Agriculture VC finance* strategy supported and specific products developed including for alternative collaterals, contract farming finance, warehouse receipt systems and cash flow lending. Opportunities and risk assessments of VC stakeholders carried out.
- *Women, youth and social inclusion* strategies and lending products supported with focus on equipping rural finance institutions with adequate skills and tools.
- Upgrading of *Management Information Systems (MIS)* of smaller PFIs based on their demand, especially with the objective to integrate seamless mobile banking. The PFIs will cover a more substantial share of the relatively high cost of this intervention.
- *Remittances* technical advisory services, delivered to PFIs, with support by the ongoing IFAD's Platform for Remittances, Investments and Migrants' Entrepreneurship (PRiME).
- Effective *agriculture and climate insurance* products and solutions such as bundled packages introduced to PFIs with support by IFAD's PARM and INSURED initiatives.
- *ESG standards and management systems* strengthened or introduced to the PFIs, including CC risk management.

56. In addition, the PFI technical support package will include assistance by the TSIS Coordinator and the recruited Technical Service Providers at each PFI to monitor and evaluate the social and environmental targeting and impact of the RK-FINFA resources.

57. A particular aspect of this sub-component will be to develop a permanent culture in the PFIs for long term pro-active rural product innovation while at the same time, with improved technical skills, to help the financial institutions to immediately reduce the risks associated with designing, piloting, and launching of new products. Success in this area will be especially important for the successful implementation and ensured sustainability of RK-FINFA financial instruments.

58. **Sub-component 1.2: Business Development Services for Agribusinesses and Smallholders.** The expected outputs of this sub-component are: (i) 1,500 small and microenterprises receive Business Development Services (BDS) and are able to submit bankable business plans; and (ii) 50,000 male and female smallholder producers receive financial literacy training including for preparation of simple business plans. The BDS is the key tool for social inclusion targeting of RK-FINFA: minimum of 50 per cent women, 30 per cent youth and 5 per cent vulnerable groups are included among all BDS clients.

59. *Pipeline generation of agribusinesses and smallholders for the TSIS.* The agribusiness and smallholder candidates for RK-FINFA's TSIS programme will be identified through the geographical targeting of the project and its PFIs, and supported by the four ongoing IFAD-financed VC projects in Kenya. Within this targeting framework, the TSIS pipeline will be developed based on expressed demand from agribusinesses and smallholders, following the defined beneficiary profiles of RK-FINFA, presented in the above described targeting strategy and with more details in the PIM. A dedicated specialist will be recruited in the PMU to support coordination with ongoing VC projects and pipeline generation.

60. *Agribusiness BDS*. The aim of the BDS is to strengthen the bankability, business planning capacity, investment start-up and financial management skills of the MSMEs, and thereby lower the investment risk for the PFIs. Furthermore, a standard bankability assessment will be completed for each agribusiness, helping to inform the PFIs of the real investment risks and opportunities. The BDS services will be demand-driven and a mandatory element prior to lending through RK-FINFA investment resources. The aim of the BDS is to ensure that all RK-FINFA financing will target well planned productive and screened investments in the rural agricultural sectors, thereby reducing the risks of overindebtedness of the MSMEs as well as the NPL rates of the PFIs.

61. *Savings Promotion and Smallholder Financial Literacy services*. The aim of this activity is to increase savings levels of the supported households, leading to sustainable investments, and to support SACCOs and MFBs long term capital mobilization. Training topics will include: basic banking skills; "Saving for a Purpose"; managing resources; borrowing; interest rates; collateral; bank transactions and payments; and the use of mobile and digital banking. Furthermore, a targeted module for women and youth empowerment in the use of financial services will be developed and rolled out.

62. *Demand side TSIS delivery mechanism*. The PFIs can either utilize their own internal service units with RK-FINFA support, and/or recruit external TSPs, for the delivery of the Agribusiness BDS and Smallholder Financial Literacy services. The pipeline generated through the demand side TSIS is linked to the outreach mechanisms of the PFIs, which are strengthened through the supply side technical support to PFIs, leading eventually to the actual investments and effective utilisation of the RK-FINFA

Component 2 financial resources.

63. **Component 2: Rural Investment Instruments**

64. The RK-FINFA will operate with two Rural Investment Instruments: (i) a ***Rural Credit Guarantee Scheme*** (R-CGS), and (ii) a ***Green Financing Facility*** (GFF). Both the R-CGS and the GFF will be designed as sustainable financing vehicles, which can utilize resources from the GoK and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions. The TSIS packages under Component 1 will support the PFIs in the implementation of the rural investment instruments, in line with each PFI's respective rural and agriculture finance strategy. Identification and referral of agribusiness and smallholder candidates into the PFI funding pipelines are supported as described above in Component 1.2. Table 2 presents the key features of the two RK-FINFA financing instruments, followed by summary descriptions of these financing instruments. See PIM for implementation guidelines.

Table 3: RK FINFA – Proposed Rural Investment Instruments

	Rural Credit Guarantee Scheme **(R-CGS)**	**Green Financing Facility** **(GFF)**
RK-FINFA budget allocation and sources	**Total US$ 20 million** - US$ 5 million IFAD PoL[47] - US$ 15 million GoK	**Total US$ 15 million** - US$ 10 million IFAD PoL - US$ 5 million GoK
Leveraged PFI contributions	US$ 80 million by the PFIs[48]	US$ 5 million by the PFIs
Objectives	Mitigate real and perceived risk to unlock commercial bank capital flows into the agribusiness and food sector SMEs.	Provide dedicated liquidity to accelerate green agricultural and rural investment products of Microfinance Banks and SACCOs, who face liquidity challenges.
Managing partner	Hosted by National Treasury; managed by a dedicated unit in NT	Hosted and managed by a financial institution
Participating FIs	Directly: Commercial banks and MFBs Indirectly: MFBs and SACCOs	4 MFBs and 20 SACCOs
Investment targets	- 2,000 MSME medium loans - 15,000 small loans - 30,000 microloans	- 7,500 small loans - 15,000 microloans
Range of loan sizes	- US$ 5,000 – 45,000 for MSMEs - US$ 1,000 – 7,500 for small loans - US$ 70 – 1,000 for microloans	- US$ 1,000 – 7,500 for small loans - US$ 70 – 1,000 for microloans
Number of HHs benefit from farm and off-farm employment opportunities	Total 160,000 rural HHs - 100,000 HHs via MSME loans - 30,000 HHs via small loans - 30,000 HHs via microloans	Total 30,000 rural HHs - 15,000 HHs via small loans - 15,000 HHs via microloans
Gender and youth inclusion targets	- 30% of investment targeting youth and women (this is the only subcomponent with less than 50% expected gender outreach, due to the instrument focus on challenge of mobilizing commercial finance to agriculture)	- 50% of investment targeting women - 30% of investment targeting youth
Environment, Social and Governance	PFIs and Agribusinesses follow agreed Environmental, Social and Governance (ESG) standards framework and CC risk management systems	PFIs follow agreed Environmental, Social and Governance standards framework. The MSMEs and smallholders implement environmental management measures and climate smart solutions.

	Rural Credit Guarantee Scheme (R-CGS)	Green Financing Facility (GFF)

Sub-component 2.1:Rural Credit Guarantee Scheme (**R-CGS**)

65. The expected results of the R-CGS are: (i) PFIs lend US$ 80 million to rural MSMEs and agriculture VCs, supported by the R-CGS guarantee amount of US$20 million; (ii) 2,000 rural MSMEs have improved access to finance; (iii) 15,000 microenterprises and farmers have improved access to finance, (iv) 30,000 smallholder farmers have improved access to finance with targeted products for women and youth, and (v) in overall the target of 30 per cent women and youth among end-client groups is achieved.

66. The RK-FINFA R-CGS's strategy is to provide risk sharing to promote rural outreach innovations and catalyze funding into the rural and agriculture sector from the portfolios of Kenyan mainstream financial institutions such as Cooperative Bank, National Bank, ABSA Bank, Kenya Commercial Bank and Equity Bank. The target institutions have a significant liquid resource base and overall strong capacity to deliver banking services, but they have limited risk appetite or internal risk capital constraints.

67. The R-CGS will build on PROFIT's Risk Sharing Scheme experiences and institution building at the National Treasury (NT). In particular, based on PROFIT lessons, in 2020, the NT institutionalized its guarantee tool by establishing the public MSME Credit Guarantee Scheme (MSME-CGS), which was recorded as success for PROFIT. The MSME-CGS is now an integral part of the GoK's strategic COVID-19 response framework and receives concerted technical and financial support from the World Bank, Financial Sector Deepening Kenya (FSDK), United States Agency for international development (USAID), as well as from IFAD on rural aspects. The MSME-CGS is established and regulated through the GoK's Public Finance Management Regulations for the Credit Guarantee Scheme, 2020.[49] A feasibility study and demand assessment has been carried out by the FDSK as well as the World Bank, pointing to large unaddressed demand for financing of MSMEs and the feasibility of the CGS tool.

68. The MSME-CGS received an initial 14 applications from commercial banks interested to participate in the scheme. To date, seven banks have been approved to participate[50]. The GoK invested KES 3 billion (US$ 27.6 million) in the scheme in 2021 and has confirmed to invest another KES 2 billion (US$ 18.4 million) over the coming two years.

69. The MSME-CGS has an appropriate overall operation framework, suitable for the RK-FINFA R-CGS. The detailed guidelines are available in Appendix 1 to the PIM, with key features being as follows:

- 50 per cent pari-passu coverage of potential losses in qualifying MSME loans.
- Four-fold required investment amount by the PFIs against their received allocation.
- The PFIs use their own credit appraisal systems and criteria, together with CGS eligibility criteria, to select the final borrowers to the scheme.
- The targeting of loans includes minimum of 30 percent youth and women.
- Transparent information and access by all eligible financial institutions.
- The guarantee resources invested are deposited and ring-fenced at CBK, accessible to PFIs only after possible losses materialise and have been reported and approved.
- In short term, due to the COVID-19 response nature of the scheme, participating banks are not charged any guarantee fees.
- In the medium term, the GoK goal will establish a Credit Guarantee Company (CGC), to which all MSME-CGS operations and available funds will be transferred.

70. The RK-FINFA R-CGS will be established as a special rural window of the GoK's MSME-CGS, with investment resources from the IFAD RK-FINFA loan (US$5 million) and GoK's PROFIT reflows (US$7.5 million) and by earmarking a rural allocation from the GoK MSME-CGS overall budget (US$7.5 million). The R-CGS investment of US$20 million, with the aligned TSIS, is expected to leverage US$80 million of commercial financing to rural clients including smallholder communities and micro-agribusinesses, as well as SME agribusinesses that lead, sustain, and develop smallholder-inclusive VCs, and that provide employment for rural people including women and youth.

71. To enable this, it has been agreed with the NT that selected aspects of the MSME-CGS will be adjusted to allow efficient functioning of the special rural window. The adjustments will be established and regulated by "*The R-CGS Addendum of the MSME-CGS Operational Manual*", a draft of which is annexed to the PIM. The key aspects of the addendum include:

- The R-CGS resources will be ring-fenced and exclusively target rural productive investment loans in line with the objectives and targeting approach of RK-FINFA.
- Wholesale lending to regulated SACCOs and MFBs will qualify for guarantee coverage. For these, larger loan sizes and special conditions will be applied. The funds made available to SACCOs and MFBs, with R-CGS support, will be used for on-lending to rural productive investments under the normal lending conditions by the SACCOs and MFBs.
- Value Chain Financing, through SME-agribusinesses, is promoted whereby the SMEs will on-lend the borrowed funds to their supplier smallholders as input loans.
- For the MSME registration requirement of the MSME-CGS, the rural special window will apply special conditions for the categories of Micro and Small loans below US$ 5,000.

72. As indicated, the GoK's plan is to convert the MSME-CGS into a Credit Guarantee Company (CGC) during the RK-FINFA implementation period. WB has indicated potential technical assistance support as well as a significant capital investment into the CGC, with the condition that CGC will be established as an independent incorporated legal entity, capitalized through both public and private investments. The project will pro-actively work with the NT to ensure that the specific aspects and requirements of the rural finance window will be appropriately incorporated into the CGC. This work is done under the policy component 3.1 and further explained below in its dedicated section. It should be noted, however, that given the immediate stimulus needs due to the COVID-19 crisis, the transfer of resources from the public Credit Guarantee Scheme to the CGC is likely to be delayed.

73. **Sub-component 2.2:Green Financing Facility** (**GFF**)

74. Sub-component 2.2 supports the target of the innovative and sustainable transformation of Kenyan rural economy through the operations and services of the Green Financing Facility (GFF), to be established with the RK-FINFA support. The GFF will contribute to the sustainable rural transformation, growth, and income generation through two fully interlinked methods: (a) alleviating the liquidity constraints of non-bank financial institutions, and (b) encouraging small-scale farmers and microenterprises to invest in climate-smart, labour saving and environmentally friendly activities. A taxonomy framework for green financing will be elaborated during project initial phases to ensure buy-in from the PFIs and clarity for the GFF eligible investment targets.

75. **Alleviating Liquidity Constraint.** As indicated, in Kenya there is an uneven distribution of liquidity among different types of FIs hindering smaller rural FIs from expanding their outreach. The GFF will be established as a permanent facility to provide wholesale capital to rural oriented SACCOs and MFBs/MFIs, for on-lending to the smallholder sub-sector and rural micro-enterprises. The RK-FINFA budget will provide the start-up capital for the wholesale operations. On the medium term, a key target is to pro-actively increase the capital base of the GFF through additional investments by other financiers with a green agenda. During the RK-FINFA design process, various potential candidates to support the scaling up of the GFF operations have been identified. These include Green Climate Fund's Private Sector Facility, European Investment Bank, KFW, potential bilateral partners as well as various UN funded programmes in Kenya.

76. The GFF will be hosted in a registered FI, which best meets the eligibility criteria[51] for the host institution, as defined in: (a) RK-FINFA's PIM and (b) GoK regulations concerning the on-lending of public funds. A number of leading commercial banks (including the Co-operative Bank, Equity Bank, and ABSA) as well as the government-owned AFC[52] have expressed their tentative interest to host the GFF, as the GFF objectives are in line with their own development vision. The selection of the host institution will be finalised after the RK-FINFA approval.

77. The wholesale borrowers from the GFF will be the regulated non-bank FIs serving the key RF-FINFA target clientele, the smallholders and rural MSMEs. This financial service market consists of two key segments. First, the deposit-taking SACCOs, particularly the 49 farmer-based DT-SACCOs that nationally serve around 2.25 million smallholder households. In addition, there are many employee-based DT-SACCOs that systematically provide credit facilities to farmers and other rural enterprises and would qualify for GFF wholesale loans if they direct the received GFF funding to smallholders. Second, the microfinance banks, serving large rural client networks nationwide and particularly low-income women. When the GFF operations mature and its capital base grows, the increase in the number of wholesale borrowers from the GFF will be pro-actively promoted through (a) actions and policies to increase the number of regulated SACCOs and MFBs in Kenya and (b) the inclusion of well-managed (but not regulated) credit-only MFIs into the scheme. RK-FINFA support to speed up these institutional development processes will be provided under Sub-component 3.1.

78. The final borrowers benefiting from the GFF funding would be the rural clients of the SACCOs and MFBs that meet the RK-FINFA requirements. The key transformative element of GFF is the targeting of investments to the climate-smart productive projects of the borrowers. This core element of the GFF is summarised below and further discussed in the PIM. **Rural Transformation through GFF's Green Financing.** While the general understanding of the importance of environmental issues and the impacts of CC has improved in recent years in Kenya, environmentally friendly and innovative climate resilient options and related investments are often overlooked due to the perception of higher upfront capital costs and the longer-term nature of realising the tangible benefits and higher incomes, as well as limitations in knowledge of existing options and technologies. To achieve faster progress in this area, the traditional knowledge applied in rural areas should be complemented with scientific knowledge to achieve the desired climate resilient livelihoods and a sustainable natural resource base. Existing Government policies and national plans strongly support greener pathways in rural development, and the updated Nationally Determined Contributions include actions such as the enhancement of energy and resource efficiency; clean efficient and sustainable energy technologies; low-carbon and efficient transportation systems; and climate smart agriculture as priorities for climate change mitigation.

79. The GFF will focus on green investments and targets its wholesale loans to PFIs for financing activities and projects in climate change adaptation/mitigation, improved environmental management, and improved efficiencies in the use of natural resources. Smallholder and microenterprise investments that qualify for GFF lending would include, but are not limited to, the following: (a) efficient water use such as drip irrigation/sprinkler or micro-jet systems; (b) flood protection measures both physical and biophysical; (c) climate resilient infrastructure/increased robustness of infrastructure; (d) climate smart farming including drought or flood tolerant inputs; (e) soil and water conservation measures; (f) renewable energy and energy efficient systems especially those that are labour efficient and time-saving to ease women's workloads; (g) water harvesting/water storage systems; (h) agro-forestry and afforestation/reforestation; (i) reduction of post-harvest food losses; (j) climate smart solutions for livestock and dairy production systems; (k) rural insurance products; and (l) cleaner transport solutions. A comprehensive taxonomy framework for green financing will be elaborated during the initial phases of project implementation. Special attention will be given to investments that result in reduction of GHG emissions and the generation of carbon credits.

80. Discussions with the key potential wholesale borrowers of the GFF indicated strong future demand for capital for innovative green investments. Leading MFBs consider green financing as a key strategy in their future operations, and they already are

offering green products to their clients. The GFF will provide additional resources for these institutions to develop the green segments of their portfolios, together with focused RK-FINFA technical support for green strategy and product development. Rural oriented DT-SACCOs also expressed interest to finance sustainable, green agricultural and rural activities but their development level in this area is lower than in the case of MFBs, requiring major TA investments under Component 1.

81. To ensure a smooth start-up of the GFF operations after the project effectiveness, during project years 1 and 2, at least 50 per cent of the GFF-funded investments in each PFI have to be used for green investments as defined in the PIM and the GFF Operations Manual. The rest of the issued GFF tranches can be used for other bankable productive investments of the RK-FINFA target group. Starting from Project Year 3, all the GFF financed investments, including the capital from both the GFF repayment reflows and the new GFF tranches, need to be in the green category. A minimum of the 50 per cent of the issued loans at the GFF scheme level have to be for women and a minimum of 30 per cent for youth farmers and entrepreneurs.

82. **GFF Operational Modality and Products.** Both at the Host Institution and PFI level, the GFF operation would be based on effective revolving of the repaid capital back to new GFF-financed loans, to achieve maximum outreach and impact. The long-term (4-5 years) tranche based GFF disbursements will allow the PFIs to apply longer than their standard loan and grace periods when issuing working capital and investment loans to their clients. This will be particularly important to support the post COVID-19 recovery efforts.

83. The GFF financing will cover 75 per cent of each loan by an MFB or a SACCO that will be issued to an eligible borrower and loan purpose. The PFI will provide the remaining 25 per cent as its own commitment from its own funds. The PFIs will carry the full credit risk of the GFF loans to final borrowers and will use their own credit appraisal systems and criteria, together with GFF eligibility criteria, to select the final borrowers to the scheme.

84. The GFF Host will receive financing at terms reflecting the low cost of IFAD financing. This will enable affordable wholesale financing for the MFBs and SACCOs, which in turn enables the provision of loans to end clients at more client-friendly terms: (i) longer loan duration and appropriate grace periods, and (ii) interest rates at the low end of the institution's interest rate scale for each type of a loan. Following the selection of the Host Institution, the detailed terms will be determined for the wholesale tranches. Ring-fenced accounts for GFF operations will be established at each participating MFB and SACCO, which will hold all the GFF funds including capital repayments from revolving loans. The Host Institution and PFIs will have a screening criteria and checklist for investments and business plans referring to the IFC exclusion list to guide decision making[53].

85. The proposed main start-up terms for the GFF-funded loans are included in Table 2 above and in more detail in the PIM's draft GFF Operations Guidelines. With these terms and the seed capital allocation from RK-FINFA, the GFF is projected during the project implementation period to provide green financing support to over 30,000 rural households. The NT, IFAD and the GFF host institution can propose justified changes to the GFF-funded loan terms for the RK-FINFA Steering Committee approval as experiences on GFF scheme performance accumulate.

Component 3: Enabling Rural Finance Environment and Project Coordination

86. Component 3 is divided into two sub-components: 3.1. Enabling Rural Finance Environment and 3.2. Project Coordination.

Sub-Component 3.1: Enabling Rural Finance Environment

87. The purpose of Sub-component 3.1 activities is to promote the creation of a conducive policy and institutional environment for increased rural financial intermediation, to support rural and agriculture transformation in Kenya. It is important to note that the main investment components of RK-FINFA specifically aim at supporting or creating economic policy instruments to increase rural financial intermediation. Therefore, for a focused RK-FINFA approach, the limited project resources allocated to Sub-component 3.1 will be directed to the development of institutional arrangements that support the medium and longer-term conducive operational environment for the R-CGS and the GFF.

88. The Sub-component will be managed and operated by a co-financing Implementation Partner selected from among the specialized non-government sector actors in Kenya. The finalisation of the focused activity plan for Sub-component 3.1 and the selection of the core support areas will be completed after receiving a detailed proposal from a pre-selected Implementation Partner candidate. Based on policy gap analysis performed through discussions with the NT and other key project stakeholders, the topics are planned to include:

- Finalisation of the addendum to the regulations of the current interim phase of the GoK's MSME Credit Guarantee Scheme to make it possible to include rural MSME and smallholder loans under the cover of guarantees as well as strategies to achieve the women target at 30 per cent (with potential to increase to 50 per cent) and 30 per cent youth outreach. Planned key partners: Treasury, FSD-K. Time: Q3/2022.
- Development of a regulatory and supportive framework for allocation of affordable resources to green finance investments by FIs including banks, MFBs and SACCOs. Planned key partners: Treasury, CBK, FSD-K. Time: Q2/2023.Support to the design of the regulations and rules of the rural window of the planned credit guarantee company to take over from the NT-operated MSME-CGS. Planned key partners: Treasury, WB, USAID, FSD-K. Time: Q4/2024.
- Support the inclusion of additional SACCOs under the regulation and supervision of SASRA (which would qualify them as candidates as wholesale borrowers from the GFF). Planned key partners: SASRA, CBK, Treasury, AGRA, FSD-K. Time: Q2/2025.
- Modify regulations to enable well-managed credit-only MFIs to seek for an MFB status (which would qualify them as candidates as wholesale borrowers from the GFF). Planned key partners: CBK, Treasury, FSD-K. Time: Q2/2025.
- Support to policies and action plans for increased registration of rural MSMEs to improve their access to bank loans and guarantees. Planned key partners: Treasury, AGRA, Ministry of Industry, Trade and Enterprise Development. Time: Q2/2025.
- Support a review of agricultural insurance operations and their regulatory status in Kenya, as a preparation for effective

agricultural insurance arrangements. Planned key partners: Treasury, FSD-K. Time: Q2/2025.

Sub-Component 3.2: Project Coordination

89. The project coordination and management costs will be budgeted under this sub-component, consisting of financing from IFAD, the Government, Participating Financial Institutions, and the co-investing implementation partners. The management and institutional arrangements are presented in Chapter 4 below and described in more detail in the PIM.

E. Theory of Change

90. The key development problem that RK-FINFA aims to solve can be described as follows: Limited investment flow hinders modernization and improved income flows in the smallholder and agribusiness sectors, despite high development potential and significant positive impacts on rural livelihoods and food systems development, poverty reduction and climate change resilience while contributing to gender mainstreaming. (See ToC diagram in Annex 2).

91. Three identified underlying causes for this development problem are: (i) information and communication gap between the financial sector and agribusiness sector due to capacity constraints; (ii) high perceived risk and real risk of financing smallholder, agribusiness sectors, in particular of rural youth and women, and (iii) limited access to liquidity by rural MFBs and SACCOs, the last mile financial service providers, particularly to commit resources into new innovative approaches such as green finance and limited outreach for youth and women.

92. RK-FINFA provides solutions to each of these three underlying problems through the following interventions: (i) Technical Support and Innovation Services (TSIS) both to PFIs and their potential pipeline of clients from the smallholder and agribusiness sectors, to improve transparency and mutual understanding of the investment opportunities and risks; (ii) Rural Credit Guarantee Scheme to help reduce the perceived risks and real lending risks and unlock private capital flows into agricultural value chains and to introduce rural outreach innovations targeting women and youth; and (iii) Green Financing Facility to provide liquidity to finance green investments of rural MFBs and SACCOs and to establish a long-term sustainable vehicle connecting non-bank financial institutions to liquid financial resources. At the same the provision of project support to an enabling environment for wider and innovative rural financial intermediation will set in motion a positive growth cycle that effectively supports the key target of transformation of the rural economy. RK-FINFA gender mainstreaming pathways will lead to increased (i) Women economic empowerment for enhanced access and control of productive resources, affordable access to finance and services (ii)Balanced and reduced workloads for women. RK-FINFA will support women to access green financing for labour and time-saving technologies such as solar lighting and energy saving cooking stoves, to encourage shifts towards equitable sharing of workload burden within the households and (iii) Women's voice in decision-making and leadership at household and community level will be implemented through leadership trainings and mentorship of women and participation in all project interventions.

93. The interventions are specifically tailored to target low-income smallholders, including women, youth, and marginalized groups, in the RK-FINFA target areas. In particular, the project development objective is to achieve increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalized rural households.

F. Alignment, ownership and partnerships

Alignment with SDGs. RK-FINFA aims to contribute directly to SDG1 (no poverty) and SDG2 (zero hunger), through its key targets of economic and social transformation and financing to smallholder agriculture and rural MSMEs. Further, RK-FINFA's targeting approach relies largely on active and beneficial participation of women and girls in all activities (SDG5 on gender and women empowerment). The project also directly promotes investments and inclusive economic growth and decent work (SDG8) in agriculture and promotes sustainable agro-industrialisation (SDG9).On climate action and environment protection (SDG13), RK-FINFA's targeted interventions through green finance aim to substantially increase adaptive capacity of targeted households through new, smarter farming methods and at the same time to generally improve the resilience of households and rural MSMEs. Finally, RK-FINFA promotes strong institutions in supervision and support of Financial Institutions (SDG16) as well as partnerships for mobilization of domestic and international resources to sustainable development (SDG17).

94. **Alignment with national priorities.** RK-FINFA is fully in line with the core priorities of the Government in rural and agricultural development. The Government's strategy to improve agricultural performance and productivity as expressed in the ASTGS 2019-2029. According to the ASTGS 2019-2029, to develop the rural sector successfully and in a sustainable manner, private sector financial institutions (particularly commercial banks, SACCOs and MFIs) would need to play a central role in the financing of the rural transformation process. The RK-FINFA operations are an integral part in efforts to support to this development process. Furthermore, the project's support to the climate smart green financing and its mainstreaming is directly in line with NDC, 2020 and the actions recognized in the Climate Change Act (2016) and Kenya's GESIP (2016-2030), which emphasises resource use efficiency. The gender targeting of RK-FINFA reflects the 2010 Constitution, Vision 2030, and national gender policies that strongly support increased gender equality. Similarly, the special efforts to include the youth among the project beneficiaries are directly in line with the GoK youth policies, including the Kenya Youth Agribusiness Strategy (2017).

95. **Alignment with IFAD's policies and corporate priorities.** The project is fully in line with the IFAD Kenya COSOP's rural transformation target and its objectives of reducing poverty and improving incomes along the key agricultural VCs. It follows the IFAD and COSOP emphasis on small farmer and MSME capacity building and especially on improved access to innovative and inclusive financial services. With its strong focus on green financing, RK-FINFA directly responds to IFAD's agenda on in climate change adaptation/mitigation, improved environmental management, and improved efficiencies in the use of natural resources. RK-FINFA aims to be gender mainstreamed and youth sensitive, therefore contributing to the IFAD11 commitments.

96. **Harmonization and Partnerships.** RK-FINFA will strengthen the on-going IFAD-supported value chain projects in Kenya by

bringing in additional capacity building services and finance to their stakeholders. Outside IFAD projects, RK-FINFA is largely built of implementation partnerships with Kenyan FIs serving the rural market. In addition, three leading NGOs supporting the sector expressed interest to join RK-FINFA as implementing and co-financing partners: FSDK, Alliance for a Green Revolution in Africa (AGRA), and the AMEA network in Kenya through its lead NGO, CORDAID International.

97. Cooperation will be established with the World Bank's "Supporting Access to Finance and Enterprise Recovery" (SAFER), under preparation to respond to the COVID-19 pandemic, with similar instruments to those of RK-FINFA but mainly targeting other sectors than agriculture and rural. In particular, the synergy points include joint support to Credit Guarantee Scheme and the enabling environment for financial sector outreach to microenterprises. Other partnership opportunities include: (i) United Nations Resident Coordinator Office, United Nations Sustainable Development Cooperation Framework (UNSDCF), and the UN-GoK flagship programme called SDG Partnership Platform, with special window for Food and Agriculture, under which the main expected joint outputs include broad communication and mobilization of investment partners, PFIs and pipeline of investees, (ii) African Development Bank's ENABLE youth initiative; (iii) the European Union AgriFi and AgriBiz projects, and (iv) Land o'Lakes value chain project "Dairy Nourishes Africa".

98. Furthermore, a number of international financiers expressed interest to potentially provide additional financial and/or technical support to scale up the RK-FINFA support operations after the project becomes operational. These international financiers include the European Investment Bank (EIB), KFW, Green Climate Fund's Private Sector Facility, as well as a number of potential bilateral partners.

G. Costs, benefits and financing

a. Project costs

99. The total RK-FINFA costs for the planned six-year project period (2022–2027) are estimated at approximately US$134.05 million. Component 1, Technical Support and Innovation Services accounts for 6 per cent (US$ 8.25 million) of the total RK FINFA project costs. Component 2, Rural Investment Instruments, accounts for 90 per cent (US$ 120.00 million) of the total project costs. Component 3, Enabling Rural Finance Environment and Project Coordination (US$ 5.80 million), constitutes 4 per cent of the total project costs. The summary of the total costs is presented in Table 3 below. Tables 4 and 5 below show the breakdown by expenditure category and component.

100. It should be noted that the PFI investments include: (a) US$ 80 million through the Rural Credit Guarantee Scheme of US$ 20 million, with 4-time leverage, (b) US$ 5 million through co-financing of the GFF investments, and (c) US$ 750 000 co-financing of TSIS costs.

101. RK-FINFA climate finance is estimated as USD 12.77 million, which is 58% of total IFAD project costs and only includes adaptation finance. For women and youth, dedicated amounts of 50 per cent of GFF financing and 30 per cent of R-CGS financing are earmarked. This equals to US$ 40 million of investments. The cost of implementation of the ESMF is estimated to be approximately US$ 466,000 and is already included in the RK-FINFA budget.

102. The breakdown of the costs in US$ by component and financier is shown in Table 4 below. Table 5 shows the breakdown of the costs in US$ by expenditure category and financiers.

103. **Table 4: Project costs by component and financier (Thousands of United States dollars)**

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Components by Financiers
(US$ '000)

	IFAD		Private Finance Institutions		Partner Institutions		The Government		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
A. Technical Support and Innovation Services													
1. PFI Capacity Building	2,588	53	315	6	750	15	1,250	26	4,900	4		4,900	
2. BDS for Smallholders and MSMEs	1,310	39	423	13	750	22	867	26	3,350	3		3,350	
Subtotal	3,898	47	737	9	1,500	18	2,117	26	8,250	6		8,250	
B. Rural Investment Instruments													
1. Rural Credit Guarantee Scheme													
Guarantee Amount	5,000	25					15,000	75	20,000	15		20,000	
Leveraged Amount			80,000	100			-	-	80,000	60		80,000	
Subtotal	5,000	5	80,000	80			15,000	15	100,000	75		100,000	
2. Green Financing Facility	10,000	50	5,013	25			4,987	25	20,000	15		20,000	
Subtotal	15,000	13	85,013	71			19,987	17	120,000	90		120,000	
C. Enabling Rural Finance Environment and Project Coordination													
1. Enabling Rural Finance Environment	904	39			800	35	596	26	2,300	2		2,300	
2. Project Coordination	2,200	63					1,300	37	3,500	3	6	3,450	44
Subtotal	3,104	54			800	14	1,896	33	5,800	4	6	5,750	44
Total PROJECT COSTS	22,000	16	85,750	64	2,300	2	24,000	18	134,050	100	6	134,000	44

Table 5: Project costs by expenditure category and financier (Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Expenditure Accounts by Financiers
(US$ '000)

	IFAD Loan		Private Finance Institutions		Partner Institutions		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs										
A. Equipment and Materials	20	75	-	-	-	-	7	25	27	-
B. Training	2,449	45	315	6	800	15	1,856	34	5,420	4
C. Credit, Guarantee Funds										
Credit	5,000	5	80,000	80	-	-	15,000	15	100,000	75
Guarantee Funds	10,000	50	5,013	25	-	-	4,987	25	20,000	15
Subtotal	15,000	13	85,013	71	-	-	19,987	17	120,000	90
D. Goods, Services and Inputs	2,577	46	423	8	1,500	27	1,144	20	5,644	4
E. Vehicles	45	56	-	-	-	-	35	44	80	0
Total Investment Costs	20,092	15	85,750	65	2,300	2	23,028	18	131,170	98
II. Recurrent Costs										
A. Salaries and Allowances	1,908	66	-	-	-	-	972	34	2,880	2
Total Recurrent Costs	1,908	66	-	-	-	-	972	34	2,880	2
Total PROJECT COSTS	22,000	16	85,750	64	2,300	2	24,000	18	134,050	100

Table 6: Project costs by component and year (Millions of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Project Components by Year -- Totals Including Contingencies
(US$ '000)

	Totals Including Contingencies						
	Y1	Y2	Y3	Y4	Y5	Y6	Total
A. Technical Support and Innovation Services							
1. PFI Capacity Building	956	956	956	956	775	300	4,900
2. BDS for Smallholders and MSMEs	570	570	570	670	970	-	3,350
Subtotal	1,526	1,526	1,526	1,626	1,745	300	8,250
B. Rural Investment Instruments							
1. Rural Credit Guarantee Scheme							
Guarantee Amount	2,500	5,000	5,000	7,500	-	-	20,000
Leveraged Amount	10,000	20,000	20,000	30,000	-	-	80,000
Subtotal	12,500	25,000	25,000	37,500	-	-	100,000
2. Green Financing Facility	5,000	10,000	5,000	-	-	-	20,000
Subtotal	17,500	35,000	30,000	37,500	-	-	120,000
C. Enabling Rural Finance Environment and Project Coordination							
1. Enabling Rural Finance Environment	200	550	500	400	350	300	2,300
2. Project Coordination	699	523	588	543	543	603	3,500
Subtotal	899	1,073	1,088	943	893	903	5,800
Total PROJECT COSTS	19,925	37,600	32,615	40,070	2,638	1,203	134,050

b. Project financing/co-financing strategy and plan

Of the projected US$ 134 million total RK-FINFA budget, the IFAD loan is projected to finance US$ 22 million, from IFAD11 PBAS allocation, accounting for 17 per cent of the total project costs. Co-financing from participating financial institutions is estimated at US$ 85.75 million, covering 64 per cent of the total project costs, mainly due to the leverage in loan guarantee operations. The GoK contribution is budgeted to cover US$ 24 million in cash and kind, covering 18 per cent of the total project costs, of which more than half is financed through the PROFIT reflows. The share of co-financing from non-government sector implementing partners is US$ 2.3 million, or two per cent of the project costs.

c. Disbursement

104. The main disbursement category is credit and guarantee funds which accounts for 68% of the IFAD's resources allocated to the project. Other expenditure categories are good, services and inputs; training; equipment and materials, vehicles and salaries and allowances. Recurrent costs account for 2% of overall project costs. The breakdown of the costs in US$ by disbursement accounts and years, and disbursement account per financiers are shown below and in section G.

Kenya

Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA

Expenditure Accounts by Years -- Totals Including Contingencies

(US$ '000)

	Totals Including Contingencies						
	Y1	Y2	Y3	Y4	Y5	2015	Y6
I. Investment Costs							
A. Equipment and Materials	27	-	-	-	-	-	27
B. Training	866	1,206	1,156	1,056	825	310	5,420
C. Credit, Guarantee Funds							
Credit	12,500	25,000	25,000	37,500	-	-	100,000
Guarantee Funds	5,000	10,000	5,000	-	-	-	20,000
Subtotal	17,500	35,000	30,000	37,500	-	-	120,000
D. Goods, Services and Inputs	982	913	968	1,033	1,333	413	5,644
E. Vehicles	70	-	10	-	-	-	80
Total Investment Costs	19,445	37,120	32,135	39,590	2,158	723	131,170
II. Recurrent Costs							
A. Salaries and Allowances	480	480	480	480	480	480	2,880
Total Recurrent Costs	480	480	480	480	480	480	2,880
Total PROJECT COSTS	19,925	37,600	32,615	40,070	2,638	1,203	134,050

d. Summary of benefits and economic analysis

105. RK-FINFA is being designed as a Rural Finance Project to support the ultimate beneficiaries using predominantly Rural Finance products. The ultimate beneficiaries are the final target group of RK-FINFA (the farmers but also the traders and processors who support the smallholders). Therefore, from the EFA angle, the financial institutions, whose implementation role is important, will only play an intermediary role to increase the financial outreach and make it possible for the “ultimate beneficiaries” to access the working capital or investment finance to either expand production or improve productivity. For a project like RK-FINFA, the main source of quantifiable benefits that can be attributable to the project are (i) productivity improvement, (ii) production increases, and (iii) input costs reductions and efficiency gains. RK-FINFA will complement the initiatives/investments by other IFAD projects in Kenya and focus its initial operations largely in counties with IFAD VC development support. Using production data from these projects, 19 models along the value chains supported by IFAD projects with added RK-FINFA investments in finance have been used. The models include on-farm production, rural trading, value addition and processing. Details are presented in Annex 4. It is understood that there will be more benefits that will arise from: (i) efficiency gains in the financial system that will lower operational costs and sustainability of financial services supply; (ii) shifts in portfolio composition of financial service providers to productive loans; (iii) incremental taxation revenues to Government; and (iv) job creation.

106. **Financial viability.** Nineteen illustrative farm/enterprise models have been developed to examine how the target group can benefit from improved financial services supported by RK-FINFA. The enterprises used in the models were all found financially viable to be able to seek additional funds. Incremental returns to incremental labour provide a sound incentive to household production increase or productivity increase.

107. **Economic viability.** The overall RK-FINFA economic internal rate of return (EIRR) is 23 percent. The estimated economic net present value (ENPV) at a 13 per cent discount rate is US$ 22.1 million. The BCR of 2.2 indicates a return of US$ 2.2 for every dollar invested. These results indicate that the project is a sound investment yielding a positive rate of return as the EIRR is greater than the hurdle rate (13 per cent) and the ENPV is greater than zero.

108. **Sensitivity analysis.** An increase in programme costs by 10 per cent will reduce the EIRR to 20 per cent, while a decrease in overall programme benefits by 20 per cent will result in an EIRR of 16 per cent. A one-year delay in benefits reduces the EIRR to 20 per cent and a two-year delay to 17 per cent. The switching values show that the project would remain economically viable if benefits decreased by 16 per cent, or programme costs increased by 27 per cent. An examination of the response of the project to identified project risks including droughts reveals it remains viable in the face of multiple short and medium drought sequences (EIRRs of 17 per cent and 23 percent respectively). The project would become unviable in the severe longer-term drought (EIRR of below 13 percent), but historical trends and projections do not foresee such a long-term weather shock for Kenya.

Sensitivity analysis				
		IRR	NPV (KES M)	Link with risk analysis
Base Scenario		23%	2,217	
Decrease of Project benefits	-10%	21%	2,632	Continuous climate shocks such as drought & floods, and occasional locusts’ invasion. This can majorly impact on loan repayment thus portfolio of the PFIs, leading to decrease of project benefits
	-20%	16%	1,045	
	-30%	15%	563	

Delay of benefits	1 year	20%	2,548	Delay in replenishment and disbursement of funds by financiers is a key risk that can highly impact on the delay of project benefits.
	2 years	17%	1,106	Insufficient financial monitoring and reporting most especially in such projects with various financing sources can easily hinder project benefits. Related to the above, lengthy government processes to establish PMUs and recruit staff is also a factor which can lead to delay of project benefits
Adoption rates	90%	20%	2,287	Low uptake of good practices
	80%	16%	880	
	70%	19%	401	
Cost Increase	10%	20%	2,657	High inflation/Macroeconomic fundamentals
	20%	17%	1,965	
	30%	15%	580	
Increase of benefits	10%	26%	4,303	
	20%	30%	6,510	

e. Exit Strategy and Sustainability

109. **Exit strategy.** The RK-FINFA exit strategy is presented in detail in Annex 10. The exit strategy of the project is an integral part of the design of project's instruments. The primary exit strategy element of the Component 1: TSIS is its aim of long-term continuation of the supported rural financing models by the PFIs as well as the sustainability of the smallholder and MSME investments. The second exit strategy element of TSIS the expected commercial viability of the service models. The programme will primarily utilize local partners to implement the TSIS, with the exit strategy that these partners continue offering similar services after the end of the project, and that the service users continue to utilize the services.

110. The Component 2 investment instruments, both the rural guarantee operations and the green financing support will be operated through permanent facilities. Therefore, the exit strategy of the project is in-built in the R-CGS and the GFF structures which are planned to continue to operate and support rural finance intermediation for a long time after the RK-FINFA operations close. Scaling up of the operations is sought through additional investments by partners, in medium and long term, as a permanent pillar of the IFAD and GoK strategies to achieve smallholder agriculture commercialization.

111. **Sustainability.** Sustainability of the RK-FINFA benefits and results can be approached at different levels. At the smallholder farmers' and MSME level, RK-FINFA will support modernised, climate resilient production systems and develop the related skills among the target group. The linkages established between smallholder and MSMEs with FIs and the banking histories developed aim to serve the RK-FINFA beneficiaries long after the project period expires. A key feature of the project is that the financial instruments used are permanent facilities that would support rural finance intermediation for decades to come. The IFAD share of the RK-FINFA investment capital would revolve in these facilities at least for the duration of the IFAD loan. The CGS is established by the Government as a permanent feature of the NT and the rural widow established with RK-FINFA support would continue to be a part of that operation even if the CGS would be transformed into a more independent guarantee company. Similarly, the GFF would continue to operate as a facility to support green financing even after RK-FINFA closes. Furthermore, the policy and institutional support operation under Sub-component 3.1 will aim to ensure that particularly the smaller FIs such as MFBs/MFIs and SACCOs would on a sustained basis be integrally linked to the financial sector, its support services, and its regulatory and supervisory network.

3. Risks

H. Project risks and mitigation measures

112. The table below presents the main risks, rated either high or substantial in the Integrated Project Risk Matrix (IPRM) in Annex 9, with t proposed mitigation measures.

Main risks	Inherent	Residual	Mitigation measures
Macroeconomic. Maintaining achieved economic growth levels during RK-FINFA implementation period will be a challenge. Public debt has increased and currently surpasses standard risk levels. Due to COVID-19 and environmental shocks, the economy contracted by 1.0 per cent in 2020. Recovery expected to take longer than initially assumed, affecting practically the whole RK-FINFA period.	Substantial	Moderate	GoK economic measures for recovery include tax reliefs, cash-transfers, suspension of loan default penalties, and bank debt restructuring. RK-FINFA contributes to GoK's efforts to implement counter-cyclical, pro-growth measures especially for the rural and agriculture sector.
Governance. Governance and transparency issues persist, as shown in 2019 CPI for Kenya, resulting in high Governance Risk and corruption-related risk rating. Lengthy Government processes to establish Project Management Units and conduct procurement have delayed start-up of projects. Despite improved systems, problems in effective monitoring and reporting by GoK persist.	Substantial	Moderate	For RK-FINFA, the main responsibility for almost all the components has been contracted to intermediaries, with tested implementation guidelines and methods, supported by systematic development of eligibility rules and procedures for RK-FINFA project activities. The intermediaries are also responsible for largest part of small scale procurements to avoid obstacles potentially emerging from GoK procurement processes.
Fragility and Security. Security threats (ethnic clashes, social and political conflicts, and terrorist attacks) can be an inherent project risk, especially in more vulnerable regions such as the Rift Valley and North-Eastern Region.	Moderate	Moderate	RK-FINFA will avoid focusing its activities in areas with obvious danger in terms of tribal clashes and terrorism.
Policy Alignment. While there is full alignment on rural sector development policies between GoK and IFAD, the Government has adopted a more robust and cautious approach in negotiating external debt. This has often resulted in long delays in signing of financing agreements with international financiers, which adversely affects the co-operation between GoK and international financiers, including IFAD.	Substantial	Moderate	RK-FINFA is fully aligned with key GoK policies on rural transformation and financial sector development. It is also seen as a part of the GoK's COVID-19 recovery programme. The financial arrangements for the projects are arranged in a manner (large private sector leverage, the use of PROFIT reflows) that supports a smoother co-operation with Government that has been the case in some earlier IFAD-supported projects.
Project vulnerability to climate change impacts. Climate shocks such as droughts and floods as well as incidence of pests and diseases will impact the end line investments, particularly those in the agricultural sector, by the smallholders and micro-enterprises. Climate change impacts can also affect loan repayments and thus the portfolio of the PFIs. The marginalization of women and youth beneficiaries, and persons with disabilities, who are more vulnerable to climate change because they face discrimination and inequalities in accessing land and water, markets, technologies, and credit.	Substantial	Moderate	Climate change risk management will be incorporated in the ESMS of the PFIs. Training and advisory services will be provided for the target beneficiaries to enhance their resilience and financial resources provided for green investments. The products under the green financing will promote climate resilience and building back better after climate shocks. Per RK-FINFA targeting strategy, women comprise 50% of beneficiaries, youth comprise 30% and a minimum of 5% of beneficiaries will be from vulnerable groups (marginalized groups including persons with disabilities and persons with HIV).

Main risks	Inherent	Residual	Mitigation measures
Gender Inequalities: Women and youth may not possess sufficient confidence, knowledge technical skills, business skills, capital and access to markets to engage profitably in selected value-chains. They would therefore not feel confident to apply for loans. Patriarchal norms may prevent women from participating and benefitting from project activities.	Substantial	Moderate	A large percent of the business skills training will target young women and men. Young women and men will be selected and trained as business coaches (ToTs) from the Counties and Wards. Business skills training will be delivered to the various groups through these ToTs.
Implementation arrangements. Due to the Government's debt situation and decreased fiscal space, GoK continues to cut back on spending, often putting ceiling on AWPBs of projects and potentially further lowering the implementation capacities in government institutions.	High	Moderate	The whole RK-FINFA implementation approach is based on the use of intermediaries in the implementation of key investment components. These include private financial institutions as well as consultancy companies and experienced local and international NGOs. With ring-fenced financing, these arrangements aim to significantly improve the changes of successful and cost-efficient implementation of RK-FINFA.
Fund flow/disbursement arrangements. Although there is a high inherent risk in Kenya (Transparency International rating of less than 3), experience from IFAD projects indicate a more satisfactory financial management regime. Key project risks include delays in replenishments and disbursements, and problems in financial monitoring and reporting especially in projects with various financing sources.	Substantial	Moderate	All implementing partner institutions that will receive funds from the PMU will have ring-fenced sub-project accounts for segregating the funds received. All partnering institutions will sign an MoU with Government of Kenya clearly highlighting the requirements for a separate bank account and financial reporting requirements.
Procurement. The weaknesses of the Kenyan procurement system lie mainly at accountability and transparency stages. The corruption perception index score and existence of only one body with debarment authority are major shortcomings in the system.	Substantial	Moderate	Most of the procurement activities of the project will be conducted by intermediaries/co-investing partners. When using the NT in procurement, the core shortcomings will be addressed by a more stringent legal framework and more specific and targeted corrective measures stipulated in the PRM and PIM. Considering the PROFIT experience and delays in procurement, RK-FINFA will be treated as a medium risk project.

113. The project's financial inherent risk is assessed substantial and residual risk moderate.

114. The project's financial inherent risk is assessed as substantial and residual risk as moderate. The project faces risks of commingling of funds at entity level (i.e the National Treasury and Planning, FSD and AGRA which will be involved in implementation of the project under the management of the National Treasury), participating financial institutions (PFIs) may not budget and contribute their co-financing of TSIS costs, delays in replenishments and disbursements of funds, possibility of the PMU staff hired lacking familiarity with IFAD procedures, problems in financial monitoring and reporting especially in projects with various financing sources. The disbursements of counterpart financing by Government of Kenya has also been inconsistence in other projects which affect timely payments of activities.

115. To mitigate these risks, all implementing partnering institutions that will receive funds from IFAD and PMU will have ring-fenced project and sub-project bank accounts for segregating the funds received and ease of accounting and tracking of advances provided. The sub-project account will be denominated in local currency (KES) and will be opened in financial institutions acceptable to IFAD. There will be monthly financial reports to PMU for monitoring operations of sub-accounts and consolidation at PMU. All partnering institutions will sign a MoU with Government of Kenya clearly highlighting the requirements for a separate bank account, financial reporting requirements and budgeting and counter-part funds provisions requirements. An accounting system will be acquired and installed at PMU before funds have been disbursed. The selection of project finance staff will also consider the agility to use computerized systems. IFAD FMD will provide capacity building training to the Finance Staff who will selected competitively. The capacity building will include familiarization with IFAD procedures on financial reporting, expenditures categorizations across components, categories and alignment with Government chart of accounting, financial reporting timelines and other financial management related to the project. In order to mitigate this risk of inadequate GoK counterpart funds, IFAD will to continue to build strong relations with NT and also monitor the flow of funds from NT to the Project to assess any deviations from the planned contribution. GoK will be required to reaffirm the commitment to transfer counterpart funds on a timely basis for smooth implementation of the project during the negotiations.

I. Environment and Social category

116. The environment and social categorization of the RK-FINFA is B applying IFAD's Social, Environment and Climate Assessment Procedures (SECAP). This categorization recognises the environmental risks that may result from the project activities, particularly the end line investments by the smallholders and MSMEs, can be avoided and/or minimized with appropriate actions. In order to ensure that RK-FINFA remains within SECAP's Category B classification, each activity/intervention supported through RK-FINFA will be screened. Thus, any activities/interventions that are likely to have high risk will be screened out at this early stage, prior to any approval for financing. To ensure the minimisation of potential adverse impacts, environmental, social and governance standards will be a criterion for participation in the project by the MSMEs and technical assistance will be provided to strengthen or establish ESMS for PFIs.

117. Some MFBs already provide services and products for sustainable production, biodiversity and environmental protection, energy efficiency and renewable energy and have established ESMS that enable reporting on these portfolios. The ESMS would have to be established in the SACCOs including capacity developed for monitoring and reporting systems. The targeted end beneficiaries are in many cases smallholders and entrepreneurs benefiting from IFAD-supported or other donor-funded projects/programmes and therefore have already been receiving training in good practices in environmental and natural resources management. The Environment and Social Management Framework (ESMF) guides the project implementation with specific criteria for screening of investments and steps for establishing or strengthening of the ESMS. The ESMF includes an assessment of potential PFIs to implement ESMSs, with capacity building requirements and additional human resources for screening criteria and checklists to be adequately applied and monitored. Guidance on incidence reporting procedures is also included.

J. Climate Risk classification

118. The climate risk classification of RK-FINFA is "Moderate" given that the target end beneficiaries, their livelihoods, and the economic activities are exposed to climate-related risks such as floods, droughts and incidence of pests and diseases. These climatic events have already adversely impacted agricultural productivity for smallholders and profitability of agribusinesses, and thus climate change projections should be taken into account in the due diligence for medium and long-term investments. Climate risk screening will be incorporated in the ESMS for the PFIs and into the Environment, Social and Governance standards for the MSMEs. Notably some MFBs already undertake climate risk screening as part of the loan appraisal for smallholders. The risk screening will be complemented by strengthening the service provision for climate risk management advisory services for the target beneficiaries and promotion of investments in climate smart technologies and practices. For the SACCOs, the capacity for climate risk screening will have to be developed including the monitoring systems and products for building the climate resilience of their clients. Larger PFIs already provide loans for new irrigation systems, water storage reservoirs, improved inputs such as drought tolerant seed varieties as well as offer weather index-based insurance. Other products include green houses, biogas, and solar energy.

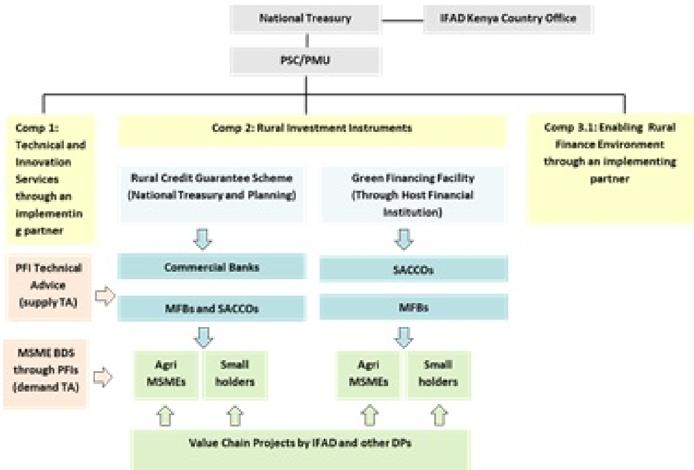
4. Implementation

K. Organizational Framework

a. Project management and coordination

119. The Lead Implementing Agency of RK-FINFA will be the Directorate of Budget, Fiscal and Economic Affairs in the National Treasury and Planning (NT&P). The Directorate is headed by a Director General who is answerable to the Principal Secretary of the NT&P. A Project Steering Committee (PSC) will be established, with representatives from the ministries and private and public agencies, which will play key roles in the implementation of RK-FINFA. Under the PSC, a dedicated PMU will be established, and implementation partnerships established for RK-FINFA components as shown in the diagram below.

120. *The RK-FINFA Project Management Unit (PMU)* will be established at the NT&P and housed in the Financial and Sectoral Affairs Department. The list of the staff in the lean PMU of RK-FINFA is provided in the PIM, as well as the draft terms of references (TORs). The key investment components and sub-components are planned to be implemented by intermediaries or investing partner institutions. Below is a summary of the implementation arrangements for the components/sub-components.



121. *Technical Support and Innovation Services (TSIS)*. For the implementation of the TSIS, the TSIS Coordinator(s) will enter into partnership with the National Treasury (NT), by covering 50 per cent of the TSIS coordination costs and assuming accountability for the TSIS implementation process and results. The tasks include selection of PFIs into the TSIS pipeline, preparation of TORs for Technical Service Providers (TSP), following the selected PFI demand, selection of the TSPs jointly with the PFIs, and their recruitment, monitoring and evaluation (M&E), jointly with the PFIs. The detailed tasks of the TSIS Coordinator(s) are presented in the PIM. The TSPs will be selected from among locally present and specialized organizations including private sector and Non-Governmental Organizations (NGOs). Depending on the TSP capacity and specialization, they may focus on demand or supply side of the TSIS or both.

122. *Rural Credit Guarantee Scheme (R-CGS).* R-CGS will be operated by dedicated and already operational MSME-CGS management unit in the NT. The Unit is staffed and housed at the National Treasury Division of Financial and Sectoral Affairs and operates a progress monitoring system connected to the MISs of the PFIs. The detailed management guidelines have been developed for the MSME-CGS operations and will be used also in R-CGS operations with special rulings to be agreed on for RK-FINFA supported rural activities at the project start-up. The full "Operational Manual - MSME Credit Guarantee Scheme" is included in the PIM. Dedicated staff will be recruited under the RK-FINFA PMU to support the rural investment aspects of the Credit Guarantee Scheme.

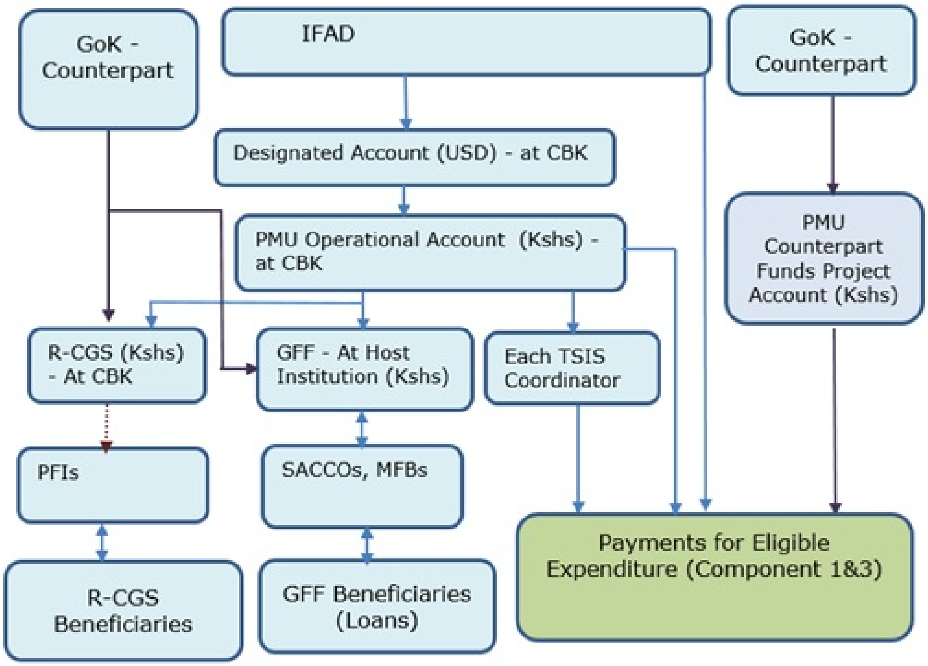
123. *Green Financing Facility (GFF)*. The GFF wholesale lending operations will be undertaken by a financial intermediary, the GFF Host institution. The National Treasury/RK-FINFA will enter into Financing Agreement with the GFF Host to on-lend the GFF funds in tranches to SACCOs and MFBs based on the eligibility criteria agreed at the project start-up (see the PIM for draft criteria). The PFIs will then on-lend the funds to eligible borrowers, again based on agreed criteria. Both at the Host and PFI level, the operation is based on effective revolving of the repaid capital back to new GFF-financed loans, to achieve maximum outreach and impact. Furthermore, both at the Host and PFI level, the GFF finances will be adequately ring-fenced from other operations and finances of the implementing institutions, to enable effective fund utilisation, control, and reporting. A GFF Operations Manual will be finalised before the lending operations commence, based on the principles in the PIM.

124. Enabling Environment Support. The implementation responsibility for Sub-component 3.1 activities will be with the RK-FINFA the Policy Component Co-Financing and Implementation Partner (NGO), under the supervision of the PMU. Before project start-up and in consultation with key stakeholders, the Policy Component Implementation Partner will make the final action plan for this support instrument and thereafter, detailed AWPBs for the sub-component. In the actual activity implementation, the Partner will use either its own experts or contract external consultants/companies when required. The Partner will also ensure that the Sub-component 3.1 activities are fully integrated with and provide support to the progress of the key investment instruments of RK-FINFA, the R-CGS and the GFF.

b. Financial Management, Procurement and Governance

125. **Disbursements, Accounts and Financial Management Systems.** There will be three types of disbursement mechanisms for the Project, which consist of (i) Advance Withdrawal, (ii) Direct Payments, and (iii) Reimbursements. Disbursements from IFAD will be made by way of an advance to the Designated Account and subsequent replenishments based on expenditure incurred as supported with Statement of Expenditure (SoE). There will be one designated account held by the National Treasury at the Central Bank of Kenya that would receive funds from IFAD which will have a corresponding dedicated project operational account in Kenya Shillings (KES).

126. All partnering institutions that will receive funds from the PMU will keep sub-project accounts for segregating the funds received. The sub-project account will be denominated in local currency and will be opened in a financial institution acceptable to IFAD. The R-CGS funds, after required conditions are met, will be deposited and ring-fenced at the Central Bank of Kenya. The guarantee reserve is accessible to PFIs only after possible losses materialise and have been reported and approved. The GFF funds will be transferred to the host financial institution after required conditions are met. There will be monthly financial reports to the PMU for monitoring operations of sub-accounts and consolidation. Below is a diagram summarising the flow of funds:



127. The Designated Account limit will be set at the total 18 months of AWPB. For the implementing agencies, the earmarked advances for specific activities agreed with the PMU will be disbursed on quarterly basis, by 15th of the month following the quarter end. To manage risks of delays in accountability from implementing agencies, advances will be made for quarterly budgets and additional amounts for the subsequent quarter made only after 50 per cent of the previous disbursements has been accounted for. Recording of expenditure to the project accounting system will be done by the PMU based on reports submitted by the implementing agencies. Payment for GoK counterpart costs for component 1 and 3 will be made from the PMU counterpart funds project account.

128. The NT will procure a financial management software as well as training for the finance staff on how to use it. IFAD requires a financial system that will be able to (i) extract SoE for withdrawal applications, (ii) reporting expenditure per category and comparing budget vs actual for the same for the current year and cumulatively, (iii) reporting expenditure per category and comparing budget vs actual for the same for the current year and cumulatively, (iv) reporting expenditure by component and comparing budget vs actual for the same for the current year and cumulatively, and (v) reporting of expenditure per financier. There has been issue of full adoption and delays in implementation of accounting system in other projects. To mitigate on this, acquisition of the accounting system will be a condition prior to withdrawal. The selection of project finance staff will also consider the competence of the candidates to use computerised systems.

129. Project Budgeting. The Project budgeting will be done in accordance with existing GoK procedures. The budget shall be based on the Annual Work Plan and Budget (AWPB) developed by the National Treasury. The project planning and budgetary process shall be implemented in accordance with the standard government fiscal year which begins on 1st July of each financial year as provided for by the Public Financial Management Act 2012 and the Government Financial Regulations and Procedures. This will form the basis for defining the Project activities and ensuring that sufficient funds are allocated to achieve the agreed results.

130. Internal controls. The project expenditure initiation, authorization and payments will be in line with Public Finance Management Act of Kenya. The Permanent Secretary (National Treasury) will be the responsible Accounting Officer for the Project. The Project Coordinator will approve all payments memo at the National Treasury before they are forwarded to the PS for authorisation. At the other implementing agencies, all payments memos will also be approved by responsible officers in accordance with their organisational structure. The Financial Controller at the PMU will be responsible for proper recording in the accounting system and all financial reporting for the project and will produce a consolidated financial statement for all the components. The financial reporting will comply with International Public-Sector Accounting Standards (IPSAS) - Cash basis.

131. Financial Reporting. Financial reporting for the project will comprise of two separate reports namely i) overall project financial report and ii) a separate report on R-CGS and GFF schemes financial performance. Disbursements of funds to R-CGS and GFF host institution will be made in tranches on meeting the agreed terms and conditions. For the project overall financial statements and SoE to IFAD, these capital disbursements will be recorded as expenditure under the respective categories and components and the financial performance monitored through the separate report on R-CGS and GFF mentioned above. The overall project financial statements will be prepared in accordance with International Public-Sector Accounting Standards (IPSAS) - Cash basis. On annual basis, the consolidated financial statements for the project will be audited in accordance with IFAD guidelines.

132. The financial reporting for the R-CGS, which will be operated by a dedicated and already operational MSME-CGS management unit in the NT, will be aligned to the financial reporting for CGS for which a rural window has been proposed. As guided by the enabling frameworks i.e. CBK prudential guidelines, IFRS 9 and the National Treasury Policy on Assets & Liability Management, 2020, the CGS will pursue in its first year of reporting (2021/22) the adoption of the Accrual Basis International Public Sector Accounting Standards (IPSASs). Relevant templates will be refined and adopted in consultation with the Public Sector Accounting Standards Board (PSASB). The detailed management guidelines for the MSME-CGS operations have been

developed and will also be used in R-CGS operations. The full “Operational Manual - MSME Credit Guarantee Scheme” is included in the PIM. The Financial Controller of the PMU will obtain periodical R-CGS financial statements prepared by the MSME-CGS management unit in the NT and share them with IFAD and other stakeholders on quarterly basis. On annual basis, the R-CGS will be audited by the Office of the Auditor General and audited financial statements submitted within six months after the end of financial year in accordance with the PFM Act of Kenya.

133. The GFF financial performance reports will be aggregated by the selected GFF host institution and submitted to the NT/PMU periodically. The National Treasury/RK-FINFA will enter into subsidiary financing agreement with the selected host institution which will include interim and annual financial reporting requirements to PMU/NT. On annual basis, the GFF host institution will include in their financial statements a specific disclosure note on GFF funds. Alternatively, the GFF host institution should provide annual financial statements for the GFF validated by their auditor. These should be provided at least six months after the end of GFF financial reporting period. If the Government AFC is selected as the host institution, the audit of the GFF will be carried out by the Office of the Auditor General. However, if a private commercial bank is selected, the audit will be carried out by their institutional auditor.

134. Internal Audit. There are internal auditors at National Treasury that are under the direct supervision of the Internal Auditor General at the National Treasury. Internal Audit Department reports to Audit Committee of the Ministry that is required to meet on a quarterly basis. The auditee committees are independent of the Ministry and are appointed in accordance with The Public Finance Management Act 2012. The PMU finance staff will also regularly carry out financial monitoring reviews at the implementing agencies which will serve to ensure expenditure are made and supported as expected and further provide capacity building on any areas of weakness that may be noted.

135. External Audit. On annual basis, the consolidated financial statements for the project will be audited by Office of the Auditor General and audited financial statements submitted to IFAD within six months after the period end in accordance with IFAD guidelines. The quality and timeliness of the external audit by the Office of the Auditor General has been rated as highly satisfactory at the portfolio level based on performance on the other existing IFAD-supported projects.

Procurement

136. **PRM Assessment.** At its design phase, the project scores an inherent low procurement risk of 2.69. However, in practice both the implementation and compliance with national systems and IFAD’s procurement systems have been weak, therefore mitigation actions which would apply to a medium risk project, rather than a low risk one, will apply in this case. The weaknesses of the Kenyan procurement system lie mainly at accountability and transparency stages. The corruption perception index score and existence of only one body with debarment authority are major shortcomings in the system. These can only be addressed by a more stringent legal framework and more specific and targeted corrective measures stipulated in the PRM and PIM. The revisions are susceptible to improve the risk from the current rating and make it even lower.

137. **Procurement Regulations.** Procurement will be conducted in accordance with the Government of Kenya Public Procurement and Disposal Act of 2015 and attendant Public Procurement and Disposal Regulations of 2020 and Public Procurement Manual of 2009. The GoK procurement guidelines address processes relating to procurement of goods, works consultancies and non-consulting services. Standard bidding documents exist for all categories of procurement except for International Competitive Bidding (ICB). Therefore, IFAD’s Standard Bidding Documents for ICB are used in lieu of national systems. As far as applicable and to ensure smooth implementation throughout the project’s lifetime, similar activities will be packaged together following IFAD’s guidance on the subject. Similarly, the project will seek framework agreements for routine and iterative purchases (works and services). Thresholds for the selection of the procurement modality under each commodity shall be those set out by in the procurement plan which shall obtain a No Objection from IFAD. The thresholds contained GoK Public Procurement Act shall not prevail. Procurement oversight review will be established in accordance with the score obtained in the Procurement Risk Matrix. Revisions related to the PP, including any new procurement arrangements, are subject to IFAD’s prior approval. The Borrower will ensure the PP budgets under each respective activity are updated accordingly and reflect the prevailing market situation. The estimated budgets, as approved by IFAD, will constitute a basis for determining the commercial reasonableness of the actual cost.

138. **Institutional Arrangements.** Some procurement activities will be carried out by the PMU within the National Treasury, while others will be carried out by the co-investing partners (preliminary identified as AGRA and FSDK). The PMU will have a dedicated Procurement Officer to co-ordinate and oversee RK-FINFA procurement operations. All agreements entered into with project parties and co-investing parties shall be subject to IFAD’s prior NO. Prior to entering any agreement, IFAD will conduct adequate due diligence exercises that respond to all requirements under IFAD’s Project Procurement Framework and relevant policies (anti-corruption, anti-money laundering and SH/SEA).

139. Under the RK-FINFA components, the investments of the core Component 2 for the R-CGF and the GFF do not involve procurement activities by the project, only the provision RK-FINFA financial support to these investment facilities. For Components 1 and 3.1, the plan is to handle procurements fully by a co-investing partner or partners (AGRA and FSDK) whose procurement frameworks will be adequately assessed under the initial due diligence carried out. All measures shall be taken to ensure their frameworks are consistent with IFAD’s Project Procurement Framework. Where necessary, the mandatory use of IFAD Standard Procurement Documents and IFAD’s Procurement Handbook may be recommended.

140. As potential partner candidates, the Design Mission assessed the procurement capacities of AGRA and FSDK). AGRA is adequately resourced with technical capacity in procurement with a whole department of four qualified procurement professionals. Their procurement guidelines capture most of the requirements of IFAD, and IFAD guidelines can fill in the areas where there may be gaps. For FSDK, because of the smaller procurement resources compared to AGRA, IFAD’s Procurement guidelines, handbook and standard Procurement documents shall be used in lieu of the FSDK systems, to ensure effective and transparent procurement processes (for more details, see the PIM).

141. **Governance Aspects and Anti-corruption Measures.** The Transparency Corruption Perception Index for Kenya scores 31 points (2020), which, although high, has improved from 28 points (in 2019). Strengthened efforts are required to ensure that IFAD's procurement principles are observed throughout the project lifetime. Therefore, strict compliance with IFAD's Policy on Preventing Fraud and Corruption will be required. Similarly, the project will ensure strict adherence IFAD's policy related to preventing Harassment, Sexual Harassment and Discrimination.

L. Planning, M&E, Learning, KM and Communication

a. Planning, M&E, Learning, Knowledge Management and Communication

142. **Planning**. The logframe of RK-FINFA (Annex 1) will guide the development of work plans and budgets for the project. Planning and budgeting will be integrated in the GoK processes and cycles and will be based on AWPBs. These, together with the logframe's quantified results-based indicators and RK-FINFA's MIS database, will provide the primary basis for monitoring the RK-FINFA progress. At the project start-up, the PMU will update the Logical Framework and based on that, develop the first AWPB. Thereafter, the PMU will prepare each year a consolidated AWPB. Subsequent AWPB processes will offer the opportunities to the PMU to reflect on lessons from the implementation experience of the previous years, and to propose activities and expenditures required to achieve the intended project outcomes. The Project will have the possibility of revising the AWPB at any time of the year, and any proposed adjustments will require approvals by both the GoK and IFAD.

143. **Monitoring and Evaluation (M&E).** During the pre-project period and immediately after project effectiveness, RK-FINFA will develop a robust M&E system in compliance with IFAD and the GoK requirements. The system will be anchored to the Kenya's National Integrated Monitoring and Evaluation System (NIMES) that tracks implementation of policies, programmes, and projects in the country, as well as to the Core Indicator measurement system of IFAD. The RK-FINFA M&E system will (i) collect, analyse, and update information on project outputs, outcomes, and impact; (ii) support PMU and the Steering Committee in planning and making informed decisions on RK-FINFA strategies and actions; and (iii) create opportunities for learning and sharing results. The system will be participatory, results-oriented, disaggregated by age and gender, enable the analysis of climate change vulnerability, and enable integration of physical and financial progress reporting. In addition to the regular monitoring of progress, the system will incorporate in-depth baseline, mid-line and completion surveys, as well as qualitative thematic studies to understand the development impact of the interventions.

144. Relevant indicators have been specified and quantified in the RK-FINFA logframe. The indicators relate to the different levels (output, outcome, and impact) and include IFAD Core Indicators (COI guideline) as well as project specific indicators. At start-up, the project will develop a glossary of indicators, detailing the exact meaning of each indicator (including CIs) in the specific context of RK-FINFA. The approach is based on the Theory of Change of RK-FINFA (see Annex 2 of the PDR) and demonstrates the logical links between the results at their different levels, thereby enabling meaningful analysis at different project stages. The M&E system implementation for the various Project activities will be fully integrated with one another, to ensure aggregation of data to the reports covering all activities, as well as the provision of appropriate guidance to management.

145. The Programme will set up a Management Information System (MIS) to facilitate the storage, use and analysis of information, based on data received from implementing partners. The project's M&E plan will be refined as part of the first implementation support mission scheduled to take place within the first six months of the programme approval. It will comprise: i) setting up a Management Information System (MIS); ii) providing clear details on the reporting requirements from different stakeholders; iii) developing standard reporting formats and agreeing on the timeline and modality of reporting by all partners.

146. Especially for the R-CGS and GFF schemes, under which the PFIs issue loans to clients, the PFIs MIS systems will be strengthened with Component 1 technical support. Most of the performance data will be automatically available from the accounting/management information systems of the PFIs. This data will be aggregated to periodically present the whole scheme level information, including data on portfolio indicators such as the gender, age and location of the borrower, loan purpose, loan disbursements and outstanding balances, as well as the repayment performance for each of the above categories.

147. **Learning and knowledge management.** The project's KM activities are guided by a robust KM plan, to improve learning, KM and communication practices within the project. A comprehensive draft RK-FINFA Knowledge Management (KM) Plan is incorporated in the PIM. Lessons learnt in implementation will be actively shared between key RK-FINFA stakeholders. Semi-annual review meetings with RK-FINFA staff and implementing partners will be organised by the PMU to discuss progress towards results in relation to each semi-annual progress report, with the focus on lessons learnt in terms of challenges, good practices, etc.

148. The KM Plan has a strong focus on documenting best practices as well as positive and negative lessons from RK-FINFA implementation experience, supported by reliable evidence and analysis. The project KM will promote the key innovations and will be aligned to the policy engagement activities of the project. The wider adoption of RK-FINFA's documented best practices and financing methods will be an important measure of the project's success in KM.

b. Innovation and scaling up

149. **Innovation and scaling up.** To support the overall target of rural transformation, innovation will be encouraged at various level of the RK-FINFA operations. In the training of smallholders, new agricultural technologies (modern, climate resilient and environmentally friendly) and diversification for increased incomes will be encouraged. In the capacity building of the PFIs, a permanent culture will be promoted for long term pro-active rural product innovation and product development. The R-CGS will scale the innovative rural outreach methods and GFF in particular will finance innovative activities and projects in climate change adaptation/mitigation, better environmental management, and improved efficiencies in the use of natural resources as an integral

part of their lending activity. Following effective launch, scaling up of the key investment activities of RK-FINFA is promising. As discussed above, various international financiers have expressed interest in investing in the scaling up of the RK-FINFA operations, for both investments in the financing capital and support to the related capacity building operations. Furthermore, the GoK has indicated that it would apply for more IFAD funding for the two supported investment instruments once they are successfully launched and allocate more funds for the operations from the state budget.

M. Project Target Group Engagement and Feedback, and Grievance Redress

a. Project Target Group Engagement and Feedback.

The target group engagement will occur at different levels encompassing the PFIs and end beneficiaries. The engagement of the PFIs will be through sensitisation and periodic monitoring sessions and review of reports. The sensitisation sessions will present the project objectives, rules of engagement and expectations. The PFIs will be able to provide feedback on the portfolios (that incorporates monitoring and reporting) they are managing and their performance during review and planning meetings. The geographic spread and reach of the PFIs may require clustering of counties during the planning and review meetings. Channels of communication between the PFIs and the PMU will be provided for feedback to be received systematically and follow up on actions taken to be conveyed.

150. The end user engagement will be through sensitisation meetings of the project activities and through meetings and consultations with PFIs that will provide the loans. The sensitization will take the form of community level public meetings to convey the project objectives, presenting PFIs and criteria and expectations for participation in the project. These meetings will be conducted in local languages and at times that allow maximum participation of different groups, women, men, youth, and persons with disabilities, and they will be announced in local media. Further engagement will be done through PFI officers during their risk analyses and advisory services for enterprises, groups, and individuals. These consultations with the end beneficiaries and monitoring visits will also provide an opportunity for feedback on the project services and challenges being faced. The feedback will be used in the adaptive management of the project through annual reviews and quarterly progress reporting.

b. Grievance redress.

151. The Grievance Redress Mechanism (GRM) will record and address any complaints that may arise during the implementation phase of the project promptly and transparently with no impacts (cost, discrimination) for any reports made by project affected people. The GRM will work within existing legal and cultural frameworks, providing an additional opportunity to resolve grievances at the local level. Complaints at the project level will be recorded on the Grievances Register that will be maintained by the project. Implementing the grievance mechanism and recording all grievances will be the responsibility of the Targeting, Gender, Youth and Social Inclusion Specialist in the PMU. A Grievance Redress Committee, comprised by the Targeting, Gender, Youth and Social Inclusion Specialist in the PMU, a County level representative and a representative from the PFIs will investigate to check the validity and severity of the grievance and resolve it. Complaints can also be submitted through IFAD's Complaints Procedure that allows individuals and communities to contact IFAD directly and file a complaint if they believe they are or might be adversely affected by an IFAD-funded project/programme not complying with IFAD's Social and Environmental Policies and mandatory aspects of SECAP. Further, the mechanism should implicitly discourage referring matters to the court system for resolution.

152. Each PFI, to be supported through RK-FINFA, will be expected to develop grievance redress mechanism of their own, specific to the types of borrowers, adopting local and institution-based mechanisms.

153. **Gender Based Violence and Sexual Exploitation and Abuse**

154. In line with IFAD's Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse (2020), RK-FINFA will ensure that adequate safeguard measures are in place for a safe working environment free of harassment, including sexual harassment, and free of sexual exploitation and abuse (SEA) in its activities and operations. The ESMS for all PFIs will include prevention and mitigation measures for GBV/SEA, and PFIs will be bound to ensure that these are applied across their client base.

N. Implementation plans

a. Supervision, Mid-term Review and Completion plans.

155. **Supervision.** RK-FINFA will be directly supervised by IFAD with annual supervision and implementation support missions, followed initially by shorter follow-up missions as needed, organised with the participation of the GoK. Continuous implementation support will be provided to the project by IFAD staff, in particular during the 18 first months of implementation to assure the strategic approach and the correct set up of financial management, procurement and M&E. Supervision will focus on (i) joint assessment of achievements and identification of implementation challenges, solutions, and agreement on actions to achieve project objectives; (ii) development impact based on progress measured against agreed indicators; and (iii) ensuring compliance with loan covenants, procurement, and efficient use of project funds.

156. **Mid-term Review (MTR).** As RK-FINFA is a six-year project, an MTR will be undertaken towards the end of third year of RK-FINFA implementation. The MTR will be jointly organised by the GoK and IFAD in close collaboration with the other stakeholders.

157. **Project Completion Report (PCR).** At the end of project implementation period, the GoK in collaboration with IFAD will

undertake a project completion review exercise, in order to report on the results and impact achieved. The PCR would need to be finalised before the project closing date, which will be six months after the completion date. As part of the completion activities, a Beneficiary Impact Assessment will be undertaken, and findings used to inform the PCR. The lessons documented in the impact assessment and PCR will be used by both IFAD and the GoK to improve the quality of the future project designs and implementation.

Implementation Readiness and Start-up Plans

158. The objective is to obtain IFAD and GoK final approval for the RK-FINFA project in December 2021 and start its implementation during Q1/2022. A comprehensive draft Project Implementation Manual (PIM) has been prepared as a part of the RK-FINFA design process. In addition, a draft AWPB and a draft procurement plan for the first 18 months of project implementation, have been prepared and are annexed to this PDR. These documents aim to ensure that the project implementation starts as scheduled, without unnecessary delays during the first project year. The pre-start-up activities to be completed after the project approval by IFAD and GoK include: (i) selection and contracting of co-financing/ implementation partners for components 1.1, 1.2 and 3.1, (ii) selection and contracting of the GFF host institution, and (iii) finalization of the R-CGS addendum agreement. Completion of these three activities is a pre-condition to the RK-FINFA start-up, in addition to the standard IFAD conditions for project effectiveness.

Footnotes

[1] Central Bank of Kenyan Annual Reports 2014 - 2019

[2] Kenya Bankers Association: Realisation of Full Potential of the Agriculture Sector: Is Commercial Financing a Core Missing Cog?, 2018

[3] Kenya Bankers Association: Realisation of Full Potential of the Agriculture Sector: Is Commercial Financing a Core Missing Cog?, 2018

[4] FinAccess 2019 Household Survey Report, Central Bank of Kenya and Financial Sector Deepening Kenya, 2019. https://www.centralbank.go.ke/wp-content/uploads/2019/04/2019-FinAcces-Report.pdf

[5]https://documents1.worldbank.org/curated/en/957121606226133134/pdf/Kenya-Economic-Update-Navigating-the-Pandemic.pdf

[6] (i) “Kenya Cereals Enhancement Programme-Climate Resilient Agricultural Livelihoods Window” (KCEP-CRAL) supports 185,000 smallholders; (ii) “Aquaculture Business Development Programme” (ABDP) supports 159,750 smallholders; (iii) “Upper Tana Catchment Natural Resource Management Project” (UTaNRMP) develops capacities for conservation and sustainable use of land, water and forestry; and (iv) “Kenya Livestock Commercialization Project” (KeLCoP) supports 270,000 smallholder producers.

[7] 2019 National Census

[8] World Population Statistics, 2021

[9 comms.centralbank.go.ke

[10] Central Bank of Kenya Statistics, 2021

[11 Kenya National Household Survey 2015/16

[12] UNPD Human Development Index, 2020

[13] Economist Intelligence Unit, Country Report: Kenya, March 2021

[14] Ibid

[15] FAO.Org/Kenya 2021

[16] World Bank & CIAT (2015). Climate-smart agriculture in Kenya. CSA Country Profile. Washington D.C

[17] Republic of Kenya, Country Strategic Opportunities Programme 2020 – 2025, IFAD, 2019

[18] GoK: Agriculture Sector Transformation and Growth Strategy (ASTGS 2019-2029)

[19] ASTGS 2019-2029, p. 46

[20] 2019 Kenya Fin Access Household Survey

[21] Project level Women's Empowerment in Agriculture Index

[22] Gender Equality and Women's Empowerment

[23] To be provided by ECG.

[24]https://www.cgap.org/sites/default/files/publications/2019_07_FocusNote_Emerging_Evidence.pdf

[25] https://www.weforum.org/reports/gender-gap-2020-report-100-years-pay-equality

[26] 2017 Kenya Youth Agribusiness Strategy

[27] https://sparkassenstiftung-easternafrica.org/fileadmin/user_upload/Youths___Savings.pdf

[28] https://www.iwgia.org/en/kenya

[29] Kenya National Survey for PWDs, preliminary report, 2007

[30] See full list of PROFIT lessons at PIM

[31] IFAD ESA Rural Finance Stocktake including review of projects PROFIT/Kenya, MIVARF/Tanzania, RUFIP II/Ethiopia, RUFEP/Zambia, PROFIRA/Uganda, PAIFAR-B/Burundi, FARMSE/Malawi, REFP/Mozambique, FINCLUDE/Eswatini and RUFIP III/Ethiopia

[32] See experiences of PROFIT at Mid Term Review report 2014, Supervision reports 2015-2019, IFAD

[33] Principles for Public Credit Guarantee Schemes for SMEs, 2015, World Bank Group

[34] Ibid

[35] See targeting structures of IFAD ESA RF projects PROFIT/Kenya, MIVARF/Tanzania, RUFIP II/Ethiopia, RUFEP/Zambia, PROFIRA/Uganda, FARMSE/Malawi, REFP/Mozambique and RUFIP III/Ethiopia

[36] PROFIT Completion Report, 2019

[37] PROFIT Completion Report, 2019

[38] (i) Bungoma, (ii) Busia, (iii) Embu, (iv) Kakamega, (v) Kirinyaga, (vi) Kisii, (vii) Machakos, (viii) Meru, (ix) Nakuru, (x) Nandi, (xi) Nyeri, (xii) Siaya, (xiii) Tharaka Nithi and (xiv) Trans-Nzoia

[39] For RK-FINFA the definition of "Smallholder" is based on the criteria: (i) engaged in agriculture activity, (ii) main household income from agriculture activity, (iii) majority of agriculture work carried out by family members, (iv) the RK-FINFA supported "small loans" and "microloans" are appropriate for the household agriculture investments.

[40] According to GoK definition, a microenterprise has 1-9 employees and up to KES 500,000 (about US$ 5,000) annual turnover.

[41] According to GoK definition, a small enterprise has 10-49 employees and up to KES 5,000,000 annual turnover, and a medium enterprise has 50-250 employees and up to KES 100,000,000 annual turnover.

[42]Profiles of 150 agribusinesses have been collected by the predecessor Kenya RF project PROFIT. These agribusiness profiles are available and serve as possible initial pipeline for RK-FINFA support.

[43]https://www.treasury.go.ke/publications/regulations/category/71-pfm-regulations.html?download=1134:public-finance-management-credit-guarantee-scheme-regulations-2020-1-2

[44] NT invited applications from 39 banks across all tiers. The final set of seven banks that qualified consists of only Tier 1 and Tier 3 banks

[45] The criteria for GFF host include general indicators for financial institution performance (see PIM points (a) to (k)) and special indicators which are: 1. Experience to act as a host to credit line-based wholesale lending operations with donor funding, 2. Experience and competence in the assessment of the performance and non-bank financial institutions as the bank's borrowing clients, 3. Overall experience in in financing rural and agricultural clients, including particularly the smallholders and rural micro-enterprises, 4. Adequate MIS systems to collect and aggregate information from various borrowing SACCOs and MFBs into comprehensive reports at the total GFF scheme level, and 5. Capacity to proactively participate in fundraising efforts to increase the volumes and impact of the GFF.

[46] In the case of AFC, a potential constraint for its role as a GFF Host can be that it does not operate under the supervision/regulation of the Central Bank of Kenya. To attract additional investments to the GFF, some key international investors consider central bank supervision as a required condition for their investments.

[47] The content and detail of the screening criteria and checklist will vary based on the size and activities of the PFIs. SACCOs are expected to have basic checklists. The IFC exclusion list is provided on https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist#2007

[48] IFAD Programme of Loans (PoL) i.e. sovereign lending window, earmarked for micro- and smallholder guarantees

[49] R-CGS will require minimum 4 times leverage with guarantees provided. The US$80 million PFI investment is an estimation of the market demand. With more demand, additional investment to the guarantee instrument will be sought

[50 ABSA Bank, KCB Bank, Equity Bank, Cooperative Bank, National Bank, and the Agriculture Finance Corporation (AFC)

[51] Kenya Women's Microfinance Bank, Faulu Microfinance Bank, Rafiki Microfinance Bank, SMEP Microfinance Bank, and SUMAC Microfinance Bank

[52] A list of 100 SACCOs have expressed demand for wholesale lending through the AFC.

[53] AGRA, FSDK and Cordaid have expressed interest to co-invest with NT and IFAD in the technical aspects of RK-FINFA

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 1: Logframe

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Rural Kenya Financial Inclusion Facility

Logical Framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				PMU quarterly report from project MIS	Annually	PMU	Project initiates its activities on expected timelines and all approvals and implementation arrangements are in place. The end target of 68,000 HHs include 2,000 MSME entrepreneurs.
	Males		13200	34000				
	Females		13200	34000				
	Young		8160	20400				
	Not Young							
	Total number of persons receiving services		26400	68000				
	Male		50	50				
	Female		50	50				
	Young							
	1.b Estimated corresponding total number of households members				PMU quarterly report from project MIS	Annually	PMU	
	Household members		127840	319600				
	1.a Corresponding number of households reached				PMU quarterly report from project MIS	Annually	PMU	
	Households		27200	68000				
Project Goal Poverty reduction and improved livelihoods in rural areas	Incidence of poverty in the selected counties				KNBS Surveys	Baseline, Midline and End Line	Third Party Surveys	This is average poverty rate in the selected 14 counties
	Percentage	33	30	27				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Development Objective Increased rural financial inclusion and investments by agriculture value chain stakeholders, leading to equitable employment opportunities, resilient production systems and increased incomes for smallholders, poor and marginalized rural households, women and youth	Volume of formal credit to agricultural sector				KNBS Surveys and CBK Reports	Baseline, Midline and End Line	Third Party Surveys	Participating FIs fully engaged in the project / Beneficiaries willing to take up financial services to expand operations
	Percentage	4	6	8				
	SF.2.1 Households satisfied with project-supported services				Surveys	Baseline, mid-term and completion	Third Party Surveys	
	Household members		102272	255680				
	Households (%)		80	80				
	Households (number)		21760	54440				
	Percentage of households reporting increase by at least 25% in income from among the recipient households				COI Survey	Baseline, mid-term and completion	Third Party Surveys	
	Percentage		25	60				
	2.2.1 New jobs created				COI Surveys	Baseline, mid-term and completion	Third Party Surveys	
	Job owner - men		6400	16000				
	New jobs		12800	32000				
	Job owner - women		6400	16000				
	Job owner - young		8448	21120				
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				COI Surveys	Baseline, mid-term and completion	Third Party Surveys	
	Total number of household members		38352	95880				
	Households		30	30				
	Households		8160	20400				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outcome Outcome 1 Technical Support and Innovation Services	Number of PFIs reporting improved capacity to develop agricultural finance products and analyse agricultural loans				Outcome surveys	Baseline, mid-term and completion	PMU	Technical Assistance is rolled out in time / 70% of MSMEs supported will prepare bankable proposals / TA rolled out in time and individuals are willing to participate
	Number		34	41				
	Commercial banks		4	5				
	MFBs		5	6				
	Rural SACCOs		25	30				
	Number of bankable proposals developed by targeted businesses				Outcome surveys	Baseline, mid-term and completion	PMU	
	Number		1200	1500				
	Micro		850	1250				
	Small		150	200				
	Medium		35	50				
	Number of bankable proposals developed by targeted farmers				Outcome surveys	Baseline, mid-term and completion	PMU	
	Number		24500	35000				
	Young		7350	10500				
	Not young							
	Males		12250	17500				
	Females		12250	17500				
	Vulnerable		1225	1750				
	Not vulnerable							
	IE.2.1 Individuals demonstrating an improvement in empowerment				Outcome surveys	Baseline, mid-term and completion	PMU	
	Total persons		60	80				
	Total persons		15840	54400				
	Females		30	40				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Females		7920	27200				
	Males		30	40				
	Males		7920	27200				
Output Output 1.1 PFI Capacity Building for rural outreach and Innovation	Number of financial service providers supported in delivering outreach strategies, financial products and services to rural areas				PMU Records	Annual	PMU	Technical Assistance is rolled out in time
	Commercial banks		4	5				
	MFBs		5	6				
	SACCOs		25	30				
	Number		34	41				
Output Output 1.2: Business Development Services for Agribusinesses and Smallholders	2.1.1 Rural enterprises accessing business development services				PMU Records	Annual	PMU	Technical Assistance is rolled out in time
	Size of enterprises		1200	1500				
	1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services				PMU Records	Annual	PMU	
	Males		20000	25000				
	Females		20000	25000				
	Young		12000	15000				
	Not Young							
	Persons in rural areas trained in FL and/or use of FProd and Services (total)		40000	50000				
Outcome Outcome 2: Rural financial instruments mobilized for improved access for agribusinesses and farmers	Leverage ratio achieved by participating PFIs				Outcome surveys	Baseline, mid-term and completion	PMU	PFIs are willing to participate in the project
	Ratio (Number of times)		2	4				
Output Output 2.1: Rural Credit Guarantee Scheme mobilized	Number of PFIs contracted under the R-CGS				PMU Records	Annual	PMU	PFIs are willing to participate in the project
	Number		41	41				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Volume of credit disbursed by PFIs				PMU Records	Annual	PMU	
	Volume of credit		32000	80000				
	1.1.5 Persons in rural areas accessing financial services				PMU Records	Annual	PMU	
	Total number of accesses to financial services							
	Women in rural areas accessing financial services - savings		5640	14100				
	Young people in rural areas accessing financial services - savings		5640	14100				
	Not young people in rural areas accessing financial services - savings							
	Men in rural areas accessing financial services - savings		13160	32900				
	Men in rural areas accessing financial services - credit		5640	14100				
	Women in rural areas accessing financial services - credit		5640	14100				
	Young people in rural areas accessing financial services - credit		5640	14400				
	Not young people in rural areas accessing financial services - credit							
	Total persons accessing financial services - savings		18800	47000				
	Total persons accessing financial services - credit		18800	47000				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Not young people in rural areas accessing financial services - insurance							
	Not young people in rural areas accessing financial services - remittances							
	Women and youth specific products developed and deployed by Commercial Banks				PMU Records	Annual	PMU	
	Number		4	6				
	Female		2	3				
	Youth		2	3				
Output Output 2.2: Green Financing Facility (GFF) mobilized	Number of MFBs and rural SACCOs mobilized to access credit line				PMU Records	Annual	PMU	PFIs are willing to participate in the project
	Number		30	36				
	Volume of wholesale finance disbursed by FI managing the Green Financing Facility (GFF)				PMU Records	Annual	PMU	
	Volume of credit		10000	20000				
	Leveraged PFIs Contributions				PMU Records	Annual	PMU	
	Volume of credit		2500	5000				
	1.1.5 Persons in rural areas accessing financial services				PMU Records	Annual	PMU	
	Total number of accesses to financial services							
	Women in rural areas accessing financial services - savings		4500	11250				
	Young people in rural areas accessing financial services - savings		2700	6750				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Not young people in rural areas accessing financial services - savings							
	Men in rural areas accessing financial services - savings		4500	11250				
	Men in rural areas accessing financial services - credit		4500	11250				
	Women in rural areas accessing financial services - credit		4500	11250				
	Young people in rural areas accessing financial services - credit		2700	6750				
	Not young people in rural areas accessing financial services - credit							
	Total persons accessing financial services - savings		9000	22500				
	Total persons accessing financial services - credit		9000	22500				
	Total persons accessing financial services - insurance		900	2250				
	Men in rural areas accessing financial services - insurance							
	Women in rural areas accessing financial services - insurance							
	Young people in rural areas accessing financial services - insurance							
	Not young people in rural areas accessing financial services - insurance							

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Not young people in rural areas accessing financial services - remittances							
	Women and youth specific products developed and deployed by SACCOs and MFBs under GCF				PMU Records	Annual	PMU	
	Number		20	32				
	Female		10	16				
	Youth		10	16				
Outcome Outcome 3: Strengthened rural finance sector policies	Number of rural finance sector policies developed				Outcome surveys	Baseline, mid-term and completion	PMU	The National Treasury facilitates the policy development process
	Number		2	7				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				Outcome surveys	Baseline, mid-term and completion	PMU	
	Household members		20400	51000				
	Households (%)		75	75				
	Households (number)		95880	239700				

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 2: Theory of change

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Annex 2: Theory of Change

Goal	**Poverty reduction, climate change resilience and improved livelihoods in rural areas**		
Development Objective	**Increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalized rural households**		
Outcomes	**RF innovations implemented and agribusiness/smallholder capacities enhanced**	**Agribusinesses invest in resilient production, generate employment and develop sustainable value chains**	**MSMEs and smallholders access financial services, invest in green production, access markets and improve profitability**
Outputs	**Technical Services introduce RF innovations and train agriculture and foods sector stakeholders**	**Banks finance agribusinesses and smallholders directly and indirectly through SACCOs and MFBs**	**MFBs and SACCOs finance green investments of agribusiness MSMEs and smallholders**
Solutions	**Technical Services and Enabling Environment**	**Rural Credit Guarantee Scheme to unlock commercial bank finance**	**Green Financing Facility to provide liquidity for MFBs and SACCOs**
Underlying issues	Information opacity between the financial sector and agri-food sector	High perceived risk and real risk of financing smallholder and agribusiness sectors	Limited access to liquidity by rural MFBs and SACCOs to increase green investment portfolios
Development problem	Limited investment flow hinders modernization of the smallholder and agribusiness sectors, despite high development potential and significant positive impacts on rural livelihoods and food systems development, poverty reduction and climate change adaptation		

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 3: Project cost and financing: Detailed costs tables

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Rural Kenya Financial Inclusion Facility (RK-FINFA).

Annex 3: Project costs and financing: Detailed cost tables.

1. ***RK FINFA Preliminary Budget and Financing*** – The budget and financing plan for RK-FINFA is presented in the tables below. Based on preliminary analysis, the total RK-FINFA costs for the planned six-year project period (2022 – 2027) are estimated at approximately US$ 134 million. The project has been done in US$ as the input currency. Of this total amount, the IFAD loan is projected to finance US$ 22 millionaccountingfor 16 per cent of the total project costs. Co-financing from participating financial institutions is estimated at US$ 85.7million, covering 64% of the total project costs, mainly due to the leverage in loan guarantee operations. The GoK contribution is budgeted to cover US$24 million in cash and kind, taking up to 18 per cent of the total project costs, partly financed with the PROFIT reflows. The share of co-financing from non-government sector implementing partners is US$ 2.3 millioncovering 2 per cent of the project costs.

2. Component 1, Technical Support and Innovation Services accounts for 6 percent (US$ 8.2 million) of the total RK FINFA project costs, while Component 2, Rural Investment Instruments accounts for 90 per cent (US$ 120 million) of the total project costs, and Component 3, Enabling Rural Finance Environment and Project Coordination constituting of 4 per cent (US$ 5.8 million) of the total project costs.

Table 1:Project costs by component and financier

(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA

Components by Financiers (US$ '000)	IFAD Amount	IFAD %	Private Finance Institutions Amount	Private Finance Institutions %	Partner Institutions Amount	Partner Institutions %	The Government Amount	The Government %	Total Amount	Total %	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
A. Technical Support and Innovation Services													
1. PFI Capacity Building	2,586	53	315	6	750	15	1,250	26	4,900	4		4,900	
2. BDS for Smallholders and MSMEs	1,310	39	423	13	750	22	867	26	3,350	3		3,350	
Subtotal	3,896	47	737	9	1,500	18	2,117	26	8,250	6		8,250	
B. Rural Investment Instruments													
1. Rural Credit Guarantee Scheme													
Guarantee Amount	5,000	25					15,000	75	20,000	15		20,000	
Leveraged Amount			80,000	100			-	-	80,000	60		80,000	
Subtotal	5,000	5	80,000	80			15,000	15	100,000	75		100,000	
2. Green Financing Facility	10,000	50	5,013	25			4,987	25	20,000	15		20,000	
Subtotal	15,000	13	85,013	71			19,987	17	120,000	90		120,000	
C. Enabling Rural Finance Environment and Project Coordination													
1. Enabling Rural Finance Environment	904	39			800	35	596	26	2,300	2		2,300	
2. Project Coordination	2,200	63					1,300	37	3,500	3	6	3,450	44
Subtotal	3,104	54			800	14	1,896	33	5,800	4	6	5,750	44
Total PROJECT COSTS	22,000	16	85,750	64	2,300	2	24,000	18	134,050	100	6	134,000	44

Table 2:Project costs by expenditure category and financier

(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA

Expenditure Accounts by Financiers (US$ '000)	IFAD Loan Amount	IFAD Loan %	Private Finance Institutions Amount	Private Finance Institutions %	Partner Institutions Amount	Partner Institutions %	The Government Amount	The Government %	Total Amount	Total %	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
I. Investment Costs													
A. Equipment and Materials	20	76	-	-	-	-	7	25	27	-	1	24	2
B. Training	2,449	45	315	6	800	15	1,856	34	5,420	4	-	5,420	-
C. Credit, Guarantee Funds													
Credit	5,000	5	80,000	80	-	-	15,000	15	100,000	75	-	100,000	-
Guarantee Funds	10,000	50	5,013	25	-	-	4,987	25	20,000	15	-	20,000	-
Subtotal	15,000	13	85,013	71	-	-	19,987	17	120,000	90	-	120,000	-
D. Goods, Services and Inputs	2,577	46	423	8	1,500	27	1,144	20	5,644	4	2	5,635	7
E. Vehicles	45	56	-	-	-	-	35	44	80	0	4	42	35
Total Investment Costs	20,092	15	85,750	65	2,300	2	23,028	18	131,170	98	6	131,120	44
II. Recurrent Costs													
A. Salaries and Allowances	1,908	66	-	-	-	-	972	34	2,880	2	-	2,880	-
Total Recurrent Costs	1,908	66	-	-	-	-	972	34	2,880	2	-	2,880	-
Total PROJECT COSTS	22,000	16	85,750	64	2,300	2	24,000	18	134,050	100	6	134,000	44

Table 3: Project costs by disbursement account and financier
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA

Disbursement Accounts by Financiers (US$ '000)	IFAD Loan				Partner Institutions		The Government		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
A. Credit, Guarantee Funds													
Credit	5,000	5.0	80,000	80.0	-	-	15,000	15.0	100,000	74.6	-	100,000	-
Guarantee Funds	10,000	50.0	5,013	25.1	-	-	4,987	24.9	20,000	14.9	-	20,000	-
Subtotal	15,000	12.5	85,013	70.8	-	-	19,987	16.7	120,000	89.5	-	120,000	-
B. Goods Services and inputs	2,577	45.7	423	7.5	1,500	26.6	1,144	20.3	5,644	4.2	2	5,635	7
C. Training	2,449	45.2	315	5.8	800	14.8	1,856	34.2	5,420	4.0	-	5,420	-
D. Equipments and materials	20	75.5	-	-	-	-	7	24.5	27	-	1	24	2
E. Vehicles	45	56.3	-	-	-	-	35	43.8	80	0.1	4	42	35
F. Operating costs	-	-	-	-	-	-	-	-	-	-	-	-	-
G. Salaries and allowances	1,908	66.3	-	-	-	-	972	33.8	2,880	2.1	-	2,880	-
Total PROJECT COSTS	22,000	16.4	85,750	64.0	2,300	1.7	24,000	17.9	134,050	100.0	6	134,000	44

Summary Cost Tables:

Table4: Summary of Costs by Components
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA

Components Project Cost Summary	US$ '000 Total	% Tota Base Costs
A. Technical Support and Innovation Services		
1. PFI Capacity Building	4,900	4
2. BDS for Smallholders and MSMEs	3,350	2
Subtotal	8,250	6
B. Rural Investment Instruments		
1. Rural Credit Guarantee Scheme		
Guarantee Amount	20,000	15
Leveraged Amount	80,000	60
Subtotal	100,000	75
2. Green Financing Facility	20,000	15
Subtotal	120,000	90
C. Enabling Rural Finance Environment and Project Coordination		
1. Enabling Rural Finance Environment	2,300	2
2. Project Coordination	3,500	3
Subtotal	5,800	4
Total PROJECT COSTS	134,050	100

Table 5:Project costs by expenditure category
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Expenditure Accounts Project Cost Summary

	(US$ '000) Total	% Total Base Costs
I. Investment Costs		
A. Equipment and Materials	27	-
B. Training	5,420	4
C. Credit, Guarantee Funds		
Credit	100,000	75
Guarantee Funds	20,000	15
Subtotal	120,000	90
D. Goods, Services and Inputs	5,644	4
E. Vehicles	80	-
Total Investment Costs	131,170	98
II. Recurrent Costs		
A. Salaries and Allow ances	2,880	2
B. Operations and maintainance	-	-
Total Recurrent Costs	2,880	2
Total PROJECT COSTS	134,050	100

Table 6:Project costs by component and year
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Project Components by Year -- Totals Including Contingencies
(US$ '000)

	Totals Including Contingencies						
	Y1	Y2	Y3	Y4	Y5	Y6	Total
A. Technical Support and Innovation Services							
1. PFI Capacity Building	956	956	956	956	775	300	4,900
2. BDS for Smallholders and MSMEs	570	570	570	670	970	-	3,350
Subtotal	1,526	1,526	1,526	1,626	1,745	300	8,250
B. Rural Investment Instruments							
1. Rural Credit Guarantee Scheme							
Guarantee Amount	2,500	5,000	5,000	7,500	-	-	20,000
Leveraged Amount	10,000	20,000	20,000	30,000	-	-	80,000
Subtotal	12,500	25,000	25,000	37,500	-	-	100,000
2. Green Financing Facility	5,000	10,000	5,000	-	-	-	20,000
Subtotal	17,500	35,000	30,000	37,500	-	-	120,000
C. Enabling Rural Finance Environment and Project Coordination							
1. Enabling Rural Finance Environment	200	550	500	400	350	300	2,300
2. Project Coordination	699	523	588	543	543	603	3,500
Subtotal	899	1,073	1,088	943	893	903	5,800
Total PROJECT COSTS	19,925	37,600	32,615	40,070	2,638	1,203	134,050

Table 7: Project Components by Year. Investment Vs Recurrent costs
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Project Components by Year -- Investment/Recurrent Costs
(US$ '000)

	Totals Including Contingencies						
	Y1	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Total**
A. Technical Support and Innovation Services							
1. PFI Capacity Building							
Investment Costs	956	956	956	956	775	300	4,900
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	956	956	956	956	775	300	4,900
2. BDS for Smallholders and MSMEs							
Investment Costs	570	570	570	670	970	-	3,350
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	570	570	570	670	970	-	3,350
Subtotal	1,526	1,526	1,526	1,626	1,745	300	8,250
B. Rural Investment Instruments							
1. Rural Credit Guarantee Scheme							
Guarantee Amount							
Investment Costs	2,500	5,000	5,000	7,500	-	-	20,000
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	2,500	5,000	5,000	7,500	-	-	20,000
Leveraged Amount							
Investment Costs	10,000	20,000	20,000	30,000	-	-	80,000
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	10,000	20,000	20,000	30,000	-	-	80,000
Subtotal	12,500	25,000	25,000	37,500	-	-	100,000
2. Green Financing Facility							
Investment Costs	5,000	10,000	5,000	-	-	-	20,000
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	5,000	10,000	5,000	-	-	-	20,000
Subtotal	17,500	35,000	30,000	37,500	-	-	120,000
C. Enabling Rural Finance Environment and Project Coordination							
1. Enabling Rural Finance Environment							
Investment Costs	200	550	500	400	350	300	2,300
Recurrent Costs	-	-	-	-	-	-	-
Subtotal	200	550	500	400	350	300	2,300
2. Project Coordination							
Investment Costs	219	43	108	63	63	123	620
Recurrent Costs	480	480	480	480	480	480	2,880
Subtotal	699	523	588	543	543	603	3,500
Subtotal	899	1,073	1,088	943	893	903	5,800
Total PROJECT COSTS	19,925	37,600	32,615	40,070	2,638	1,203	134,050
Total Investment Costs	19,445	37,120	32,135	39,590	2,158	723	131,170
Total Recurrent Costs	480	480	480	480	480	480	2,880

Table 8: Project costs by expenditure category by Year. Totals including contingencies
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Expenditure Accounts by Years -- Totals Including Contingencies
(US$ '000)

	Totals Including Contingencies						
	Y1	Y2	Y3	Y4	Y5	2015	Y6
I. Investment Costs							
A. Equipment and Materials	27	-	-	-	-	-	27
B. Training	866	1,206	1,156	1,056	825	310	5,420
C. Credit, Guarantee Funds							
Credit	12,500	25,000	25,000	37,500	-	-	100,000
Guarantee Funds	5,000	10,000	5,000	-	-	-	20,000
Subtotal	17,500	35,000	30,000	37,500	-	-	120,000
D. Goods, Services and Inputs	982	913	968	1,033	1,333	413	5,644
E. Vehicles	70	-	10	-	-	-	80
Total Investment Costs	19,445	37,120	32,135	39,590	2,158	723	131,170
II. Recurrent Costs							
A. Salaries and Allowances	480	480	480	480	480	480	2,880
Total Recurrent Costs	480	480	480	480	480	480	2,880
Total PROJECT COSTS	19,925	37,600	32,615	40,070	2,638	1,203	134,050

Detailed Cost Tables:

DT. 1.1 Capacity building.

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility
Table 1.1. PFI Capacity Building
Detailed Costs
(US$)

	Quantities									Totals Including Contingencies							Expenditures by Financiers			
	Unit	Y1	Y2	Y3	Y4	Y5	Y6	Total	Unit Cost	Y1	Y2	Y3	Y4	Y5	Y6	Total	IFAD	Private Finance Institutions	Partner Institutions	The Government
I. Investment Costs																				
A. TSIS Coordination, M&E and Knowledge Management	Per/Year	1	1	1	1	1	1	6	300,000	300,000	300,000	300,000	300,000	300,000	300,000	1,800,000	1,050,330	-	749,670	-0
B. Bank Services	Per/Year	1	1	1	1	-	-	4	93,750	93,750	93,750	93,750	93,750	-	-	375,000	172,500	42,500	-	160,000
C. MFB Services	Per/Year	1	1	1	1	-	-	4	112,500	112,500	112,500	112,500	112,500	-	-	450,000	225,500	45,000	-	179,500
D. SACCO Services	Per/Year	1	1	1	1	1	-	5	361,800	350,000	350,000	350,000	350,000	409,000	-	1,809,000	904,500	180,900	-	723,600
E. FI ESMF Services	Per/Year	1	1	1	1	1	-	5	93,200	100,000	100,000	100,000	100,000	66,000	-	466,000	233,000	46,600	-	186,400
Total										956,250	956,250	956,250	956,250	775,000	300,000	4,900,000	2,585,830	315,000	749,670	1,249,500

DT. 1.2 BDS to smallholders.

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA)
Table 1.2. BDS To Borrowers
Detailed Costs
(US$)

	Quantities									Totals Including Contingencies							Expenditures by Financiers			
	Unit	Y1	Y2	Y3	Y4	Y5	Y6	Total	Unit Cost	Y1	Y2	Y3	Y4	Y5	Y6	Total	IFAD Loan	Private Finance Institutions	Partner Institutioi	The Government
I. Investment Costs																				
A. Agribusiness BDS Services	Per/Year	1	1	1	1	1		5	300,000	300,000	300,000	300,000	300,000	300,000		1,500,000	350,000	262,500	750,068	450,000
B. Small holder Fin Literacy	Per/Year	1	1	1	1	1		5	270,000	270,000	270,000	270,000	270,000	270,000		1,350,000	960,000	160,000		405,000
Total										570,000	570,000	570,000	570,000	570,000		2,850,000	1,310,000	422,500	750,068	855,000

DT. 2.1 Credit Guarantee scheme.

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA)
Table 2.1. Credit Guarantee Scheme
Detailed Costs
(US$)

	Quantities									Totals Including Contingencies							Expenditures by Financiers		
	Unit	Y1	Y2	Y3	Y4	Y5	Y6	Total	Unit Cost	Y1	Y2	Y3	Y4	Y5	Y6	Total	IFAD	Private Finance Institutions	The Government
I. Investment Costs																			
A. R-CGS Guarantees																			
1. IFAD Financing	Per/Year	1	1	1				3	1,666,667	2,000,000	2,000,000	1,000,000				5,000,000	5,000,000		
2. Government financing	Per/Year	1	1	1	1			4	3,750,000	500,000	3,000,000	4,000,000	7,500,000			15,000,000			15,000,000
3. CGS supported loans USD (by PFIs)	Per/Year	1	1	1	1			4	20,000,000	10,000,000	20,000,000	20,000,000	30,000,000			80,000,000		80,000,000	
Total										12,500,000	25,000,000	25,000,000	37,500,000			100,000,000	5,000,000	80,000,000	15,000,000

DT. 2.2 Green Financing Facility.

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA)
Table 2.2. Green Financing Facility
Detailed Costs
(US$)

	Unit	Quantities							Unit Cost	Totals Including Contingencies							Expenditures by Financiers		
		Y1	Y2	Y3	Y4	Y5	Y6	Total		Y1	Y2	Y3	Y4	Y5	Y6	Total	IFAD	Private Finance Institutions	The Government
I. Investment Costs																			
A. Green Financing Facility Investment Capital	PER/YEAR	1	1	1				3	6,666,667	5,000,000	10,000,000	5,000,000				20,000,000	10,000,000	5,012,800	4,987,200
Total										5,000,000	10,000,000	5,000,000				20,000,000	10,000,000	5,012,800	4,987,200

DT. 3.1 Enabling Rural Finance Environment

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA)
Table 3.1. Enabling Rural Finance Enviroment
Detailed Costs
(US$)

	Unit	Quantities							Unit Cost	Totals Including Contingencies							Expenditures by Financiers		
		Y1	Y2	Y3	Y4	Y5	Y6	Total		Y1	Y2	Y3	Y4	Y5	Y6	Total	IFAD	Partner Institutions	The Government
I. Investment Costs																			
A. Research reviews documentation	PER/YEAR	1	1	1	1	1	1	6	300,000	150,000	400,000	400,000	300,000	300,000	250,000	1,800,000	720,000	650,000	430,000
B. Workshops thematic events information dissmination	PER/YEAR	1	1	1	1	1	1	6	83,333	50,000	150,000	100,000	100,000	50,000	50,000	500,000	183,889	150,000	166,111
Total										200,000	550,000	500,000	400,000	350,000	300,000	2,300,000	903,889	800,000	596,111

DT. 3.2. Project coordination.

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Table 3.2. Project Coordination
Detailed Costs
(US$)

		Quantities							Totals Including Contingencies							Expenditures by Financiers	
	Unit	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Total**	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Total**	**IFAD**	**The Government**
I. Investment Costs																	
A. Vehicles, Office and equipment																	
1. 2 Vehicles	Per/Vehicle	2	-	-	-	-	-	2	70,000	-	-	-	-	-	70,000	35,000	35,000
2. Vehicle operation and maintainance	Per/Year	2	2	2	2	2	2	12	12,000	12,000	12,000	12,000	12,000	12,000	72,000	-	72,000
3. Office equipment and furniture	Lumpsum								10,000	-	-	-	-	-	10,000	8,000	2,000
4. Office rent	Per/month	12	12	12	12	12	12	72	12,000	12,000	12,000	12,000	12,000	12,000	72,000	-	72,000
5. Utilities	Per/month	12	12	12	12	12	12	72	6,000	6,000	6,000	6,000	6,000	6,000	36,000	-	36,000
6. Laptops	Per PC	10	-	-	-	-	-	10	12,000	-	-	-	-	-	12,000	12,000	-
7. Mobile phones	Per phone	10	-	-	-	-	-	10	4,500	-	-	-	-	-	4,500	-	4,500
8. Mobile phone airtime	Per/Year	120	120	120	120	120	120	720	1,800	1,800	1,800	1,800	1,800	1,800	10,800	-	10,800
Subtotal									128,300	31,800	31,800	31,800	31,800	31,800	287,300	55,000	232,300
B. M&E, KM and key workshops																	
1. M&E systems and costs	Lumpsum								28,700	-	-	-	-	-	28,700	-	28,700
2. Baseline	Lumpsum								50,000	-	-	-	-	-	50,000	50,000	-
3. Mid term evaluation	Lumpsum								-	-	35,000	-	-	-	35,000	-	35,000
4. End line evaluation	Lumpsum								-	-	-	-	-	50,000	50,000	50,000	-
5. Knowledge management	Per/Year	-	-	1	1	1	1	4	-	-	20,000	20,000	20,000	20,000	80,000	80,000	-
6. Start up workshops	Lumpsum								10,000	-	-	-	-	-	10,000	-	10,000
7. Annual supervision support costs	Per/Year	-	1	1	1	1	1	5	-	10,000	10,000	10,000	10,000	10,000	50,000	37,000	13,000
8. Mid term review workshop	Lumpsum								-	-	10,000	-	-	-	10,000	10,000	-
9. completion Workshop	Per/Year								-	-	-	-	-	10,000	10,000	10,000	-
10. Project Steering Committee Expenses	Per/Year	1	1	1	1	1	1	6	1,500	1,500	1,500	1,500	1,500	1,500	9,000	-	9,000
Subtotal									90,200	11,500	76,500	31,500	31,500	91,500	332,700	237,000	95,700
Total Investment Costs									218,500	43,300	108,300	63,300	63,300	123,300	620,000	292,000	328,000
II. Recurrent Costs																	
A. Staff costs																	
1. Project coordinator	Per/month	12	12	12	12	12	12	72	72,000	72,000	72,000	72,000	72,000	72,000	432,000	432,000	-
2. Financial and Administration Manager	Per/month	12	12	12	12	12	12	72	60,000	60,000	60,000	60,000	60,000	60,000	360,000	360,000	-
3. Senior rural finance specialist	Per/month	12	12	12	12	12	12	72	54,000	54,000	54,000	54,000	54,000	54,000	324,000	324,000	-
4. Procurement specialist/contract manager	Per/month	12	12	12	12	12	12	72	48,000	48,000	48,000	48,000	48,000	48,000	288,000	288,000	-
5. Monitoring & Evaluation Specialists	Per/month	12	12	12	12	12	12	72	48,000	48,000	48,000	48,000	48,000	48,000	288,000	288,000	-
6. Value chain finance officer	Per/month	12	12	12	12	12	12	72	36,000	36,000	36,000	36,000	36,000	36,000	216,000	216,000	-
7. Environment and Climate Change Officer	Per/month	12	12	12	12	12	12	72	36,000	36,000	36,000	36,000	36,000	36,000	216,000	-	216,000
8. Social inclusion officer	Per/month	12	12	12	12	12	12	72	36,000	36,000	36,000	36,000	36,000	36,000	216,000	-	216,000
9. Accountant	Per/month	12	12	12	12	12	12	72	36,000	36,000	36,000	36,000	36,000	36,000	216,000	-	216,000
10. Administrator/programme assistant	Per/month	12	12	12	12	12	12	72	12,000	12,000	12,000	12,000	12,000	12,000	72,000	-	72,000
11. Two drivers	Per/month	24	24	24	24	24	24	144	18,000	18,000	18,000	18,000	18,000	18,000	108,000	-	108,000
Subtotal									456,000	456,000	456,000	456,000	456,000	456,000	2,736,000	1,908,000	828,000
B. PMU Staff travel costs for regular monitoring																	
1. Travel costs for 6 PMU technical staff	Man/day	240	240	240	240	240	240	1,440	24,000	24,000	24,000	24,000	24,000	24,000	144,000	-	144,000
Total Recurrent Costs									480,000	480,000	480,000	480,000	480,000	480,000	2,880,000	1,908,000	972,000
Total									698,500	523,300	588,300	543,300	543,300	603,300	3,500,000	2,200,000	1,300,000

IFAD
Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 4: Economic and Financial Analysis

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Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Annex 4: Economic and Financial Analysis.

Introduction.

1. RK-FINFA is being designed as a Rural Finance Project to support the ultimate beneficiaries using predominantly Rural Finance products. The ultimate beneficiaries are the final target group of RK-FINFA (the farmers but also the traders and processors who support the smallholders). Therefore, from the EFA angle, the financial institutions, whose implementation role is important, will only play an intermediary role to increase the financial outreach and make it possible for the "ultimate beneficiaries" to access the working capital or investment finance to either expand production or improve productivity. For a project like RK-FINFA, the main source of quantifiable benefits that can be attributable to the project are (i) potential productivity improvement and (ii) production increases. RK-FINFA will complement the initiatives/investments by other IFAD projects in Kenya and focus its initial operations largely in counties with IFAD VC development support. Using production data from these projects, 19 models along the value chains supported by IFAD projects with added RK-FINFA investments in finance have been used. The models include on-farm production, rural trading, value addition and processing. Details are presented in Annex 4. It is understood that there will more benefits that will arise from: (i) efficiency gains in the financial system that will lower operational costs and sustainability of financial services supply; (ii) shifts in portfolio composition of financial service providers to productive loans; (iii) incremental taxation revenues to Government; and (iv) job creation.

2. The basis of measuring the Without Project (WOP) for RK-FINFA, is the end target for the existing or even recently closed projects such as Smallholder Dairy Commercialization Project (SDCP). To measure the incremental effect of RK-FINFA the With-Project (WP) for existing/ recently closed projects then become WOP for RK-FINFA. With this, 19 models along the value chains supported by IFAD projects have been used. The models include on- farm, trading, value addition and some processing. Details are presented in annex 4. It is understood that there will more benefits that will arise from: (i) efficiency gains in financial system that will lower operational costs and ensure self-sufficiency and sustainability of financial services supply; (ii) Shifts in portfolio composition of financial service providers (productive loans versus consumption); (iii) incremental taxation revenues to government; (iv) economic benefits of transfer effects and (v) job creation.

3. Following the IFAD EFA guidelines, quantifying benefits in a Rural Finance Project like the proposed RK-FINFA, has been done using the methodological approach below:

Box1: Methods considered on the quantification of the RK-FINFA:

- Potential productivity increases through financing of working capital (incremental benefits to clients/borrowers)
- Efficiency gains in financial system can lower operational costs and ensure self-sufficiency and sustainability of financial services supply
- Shifts in portfolio composition of financial service providers (productive loans versus consumption)
- Incremental taxation revenues to government
- Economic benefits of transfer effects

INCREMENTALITY APPROACH/ATTRIBUTION OF BENEFITS TO RKFINFA

4. This EFA annex aims to demonstrate the RK-FINFA additional incremental benefits as a result of beneficiaries' access to finance. The importance of measuring the anticipated RK-FINFA benefit attribution effect draws from the lessons learned under the closed PROFIT that in the end was not successful in showing its impacts to the ultimate beneficiary. It spent more effort documenting the work done with Banks and MFIs but not the ultimate beneficiaries who are the farmers, traders, some value addition, processors etc.

5. Approach to determining the RK-FINFA Without project situation: RK-FINFA will complement the initiative/ investments being undertaken or already undertaken by other IFAD projects in Kenya. This does not mean that other target beneficiaries will not benefit. But at least for the basis of measuring the WOP for RK-FINFA, the IFAD portfolio information has been useful. To measure the incremental effect of RK-FINFA the WP for existing projects then becomes WOP for RK-FINFA.

6. Possible value chains that are supported by other IFAD projects.

Project	Crop/Enterprise
Kenya Livestock commercialization project (KEL-COP)	• Poultry • Small ruminants
Kenya Cereal Enhancement program-Climate Resilient Agricultural Livelihood window (KCEP-CRAL)	• Maize • Sorghum
Upper Tana catchment Natural Resource Management project (UTaNRMP)	• Poultry • Beans • Green grams • Tomatoes • Maize • Sorghum
Small holder Dairy commercialization program (SDCP)	• Coolers • Dairy

7. **Financial viability:** Nineteen illustrative farm/enterprise models have been developed to examine how the target group can benefit from improved financial services supported by RK-FINFA. The enterprises used in the models were all found financially viable to be able to seek additional funds. Incremental returns to incremental labour provide a sound incentive for household production increase or productivity increase.

Table 1.Financial Analysis of the Models:

A)

	Farm models' net incremental benefits (in KES 000)																		
	Cereals/On farm Agriculture				Legumes		Hoticulture	Poultry			Small ruminants				Root crops		Dairy		
	Maize models	Sale of maize flour	Sorghum	Sale of sorghum flour	Beans Model	Green Grams Model	Tomato model	Local chicken model	Broilers chicken model	Layers chicken model	Goat enterprise model	Sale of goat's meat	Piggery	Pork processing and selling	Sweet potato Model	Cassava Model	Dairy Cow Model	Goat Dairy Model	Coolers Ent. Model
PY1	-24	-587	5	(223)	(7)	(14)	17	-24	-104	-488	(163)	(187)	(102)	(203)	(48)	5	(108)	(49)	(3,200)
PY2	13	139	22	22	3	7	107	2	57	96	60	8	20	49	(40)	36	51	11	633
PY3	9	209	21	95	6	8	202	12	87	212	108	80	78	109	58	60	83	31	787
PY4	9	209	21	95	6	8	202	5	31	197	92	77	66	90	58	60	83	31	787
PY5	9	209	21	95	6	8	134	12	87	212	71	82	80	110	58	60	83	31	787
PY6	9	209	21	95	6	8	134	12	87	212	71	82	80	110	58	60	83	31	787
PY7	9	209	21	95	6	8	134	5	31	197	71	77	66	90	58	60	83	31	787
PY8	9	209	21	95	6	8	134	12	87	212	71	82	80	110	58	60	83	31	787
PY9	9	209	21	95	6	8	134	12	87	212	71	82	80	110	58	60	83	31	787
PY10	9	209	21	95	6	8	134	5	31	197	71	70	66	70	58	60	83	31	787
	9	209	21	95	6	8	134	5	31		71	70	66	70	58	60	83	31	787
IRR/**	40%	29%		31%	69%	54%		29%	61%	34%	47%	30%	53%	41%	50%		65%	49%	18%
NPV (KES'000)	25	415	105	195	20	26	724	18	220	460	223	156	220	259	157	270	274	90	763

*** ERR does not compute in models without negative cashflow*

8. The primary objective of the financial analysis is to determine the financial viability and incentives of the target households for engaging in the project activities, by examining the impact of project interventions on family labour, cash flow and net incomes.

9. The financial aspects of models are presented in table 2 demonstrating production and investment costs including labour and excluding labour costs, the average production and investment costs by third year of the project, average revenue and average incremental income at the third year which is considered the climax of the project.

Table 2: Financial analysis:

Model	Production & investment cost, including labour(year 1) KES	Production & investment cost, before labour(average) KES	Average Production & investment cost, including labour (Yr 3)KES	AverageRevenue per year KES	Incremental income, (year 3) KES
Maize	51,744	28,080	50,352	80,000	9,215
Tomatoes	217,148	187,359	274,593	540,000	202,386
Broilers	639,454	572,638	903,798	1,187,837	326,714
Piggery	277,504	216,256	220,651	308,800	87,174
Cassava	62,019	39,190	64,404	205,325	59,944
Beans	31,015	15,425	33,439	54,072	10,683
Dairy Cow	329,981	272,074	216,661	375,840	99,072
Coolers	4,128,456	3,962,856	1,015,924	2,299,770	786,703

10. The estimated incremental production of the farm and off farm models is expecting improvement in productivity due to the project intervention. The analysis has been done by taking into consideration the average current prices assuming similar condition in area region. A cash-flow analysis is finally carried out to present the "with" and "without" project analysis.

11. Most models are expected to provide farmers with physical outputs and financial returns that are attractive in relation to their extra labour, other farm inputs and financial investment. The project is supposed to provide farmers with financial resources needed to cover production costs (operational or working capital), capacity building and administrative support. Due to the project intervention, increase in yield, quality and distribution of products has been projected.

12. Demand for labour provides opportunities for the poorest to gain employment. The cost of rural farm labour set at going market rate varies and it is estimated to be from KES 300/day to KES 600/day depending on the activity and region. Returns to labour as well as net farm income within different models increases by a rate that is substantial and much higher than the prevalent wage rate for inexperienced labour in the area.

13. All the models present a higher financial efficiency in terms of financial Net Present Value (NPV) and the financial benefits-cost ratio (BCR). For instance, NPV is positive for the all models (KES 65,856

for maize, KES 688,329 for tomatoes, KES 204,457 for broilers, KES 253,258for Piggery, KES 255,567 for cassava, KES 40,433 for beans, KES 227,704 for dairy cow and KES 600,025 for coolers over 6 years period. Changes in financial indicators illustrate the predicted transformation in livestock practices in the project area. Analysis of the livestock and enterprise models confirm that the impact of the project at the farmers' level is financially attractive for family households and net farmers' incomes are expected to increase. The table below illustrates the financial profitability indicators for the project.

Table 3: Financial profitability indicators:

Model	Net present value / KES	B/C Ratio	Return to family labour (KES/day)
Maize	65,856	1.4	366
Tomatoes	688,329	1.3	2965
Broilers	204,457	0.9	1420
Piggery	253,258	1.2	742
Cassava	255,567	1.9	2844
Beans	40,433	1.4	478
Dairy cow	227,704	1.4	890
Coolers	600,025	1.4	2254

14. Table 4 provides overall project costs by components and beneficiaries. The total project costs have been estimated at US$ 134 million over 6-year project implementation period. The cost per beneficiary has been estimated at modest KES 13,768 and cost per household has been estimated at KES 55,073 Adoption rate of the project is 60% and up to 263,026 of direct households has been estimated to be impacted by the project implementation (equivalent to 1 million beneficiaries).

Table 4; Programme/project costs and log frame targets

B)

PROGRAMME COSTS AND INDICATORS FOR LOGFRAME						
TOTAL PROGRAMME COSTS (in million KES)			14,486			
Beneficiaries	**1,089,779**	people	272,445	**Households**		
Cost per beneficiary	**13,292**	KES x person		53,169	KES	
Components and Cost (USD million)		Average increase in rural income per capita			WOP (KES)	
A. Technical Support and Innovation Services	837	Average increase in income per HH per year			-	133
B. Rural Investment Instruments	12,960					
C. Enabling Rural Finance Environment and Project Coordination	689					

Economic Analysis:

15. **Economic viability.** The overall RK-FINFA economic internal rate of return (EIRR) is 23 percent. The estimated economic net present value (ENPV) at a 13 per cent discount rate is US$ 22.1 million. The BCR of 2.2 indicates a return of US$ 2.2 for every dollar invested. These results indicate that the project is a sound investment yielding a positive rate of return as the EIRR is greater than the hurdle rate (13 per cent) and the ENPV is greater than zero.

16. The objectives of the economic analysis are: (i) to assess the overall project viability; and (ii) to estimate the project impact by calculating the economic rate of return. The computation of economic costs is derived from financial project costs, by excluding transfers such as duties, taxes, and price contingencies. Production inputs and outputs, labour, and other items have been shadowed priced to stand for market imperfections. Economic costs in border prices for major agricultural inputs and products were computed using the associated conversion factors to adjust the local content of costs and goods assumed to be non-traded. Prices requiring a different conversion factor are introduced. The related labour financial price is adjusted downward by using a standard conversion factor of 0.92; 0.93 for imported agricultural products and 93.4 for exported agricultural products. Shadow conversion factor is 0.93 which changes shadow exchange rate to value of KES 110.4 for 1 US$. The financial discount rate has been adjusted according to data available on Central Bank of Kenya commercial banks weighted average rates (13.148%) and social rate was adjusted to Govt. bonds (6 years duration 7%, source - Central Bank of Kenya). Detailed have been summarized in table 5 below.

Table 5; Main assumptions and shadow prices:

C)	MAIN ASSUMPTIONS & SHADOW PRICES[1]						
	Output	land Size	Yields (Annually)		Price (KES)		
			WOP	WP			
	Maize Model	1 ha	2,000	3,500	25		
	Sale of maize flour		36,000	46,800	50		
	Sorghum	1 ha	2,500	4,000	20		
	sale of sorghum flour		15,400	20,020	55		
	Tomato model	1 ha	5,000	20,000	60		
	Local Chicken Model		150	300	700		
	Broilers Chicken Model		150	400	600		
FINANCIAL	Layers Chicken Model		150	500	600		
	Green Grams		400	880	60		
	Beans Model		600	1,235	60		
	Sweet potatoes		2,000	3,000	50		
	Cassava Model		2,000	3,333	70		
	Goat finance model	1 ha	-	2	11,000		
	Goat's meat processing & selling	1 ha	10	70	450		
	Piggery livestock model	1 ha	4	10	400		
	Pork processing and selling	1 ha	10	30	400		
	Dairy cow Model		5,400	10,800	40		
	Dairy goat model		360	1,440	90		
ECONOMIC	Coolers enterprise model		-	5,000	42		
	Official Exchange rate (OER)			100	Disc. rate (opp. cost of		12%
	Shadow exchange rate (SER)			93.44	t rate on savings/ deposit acc		7%
	Labour Conversion factor \3			0.93			

Table 6; Summary reflecting the WOP and WP yields, costs, revenues and labour requirements.

Model	Unit of measure	Production Yields		Unit Cost (KES)	Production Revenue		Labour budget: Family labour	Hired Labour	Total Labour Days
		WOP	WP		WOP	WP	WP (Yr. 3)	WP (Yr. 3)	
Maize Model	Kgs	2,000	3,500	25	37,500	80,000	76	2	78
Sale of maize flour	Kgs	36,000	46,800	50	1,791,000	2,398,500	360	100	460
Sorghum	Kgs	2,500	4,000	20	44,500	72,800	89	2	91
sale of sorghum flour	Kgs	15,400	20,020	55	804,650	975,975	10	360	370
Tomato model	Kgs	5,000	20,000	60	246,000	540,000	120	2	122
Local Chicken Model	No.	150	300	700	97,200	189,000	25	10	35
Broilers Chicken Model	No.	150	400	600	342,000	911,998	240	10	250
Layers Chicken Model	No.	150	500	600	249,163	717,324	200	10	210
Green Grams	Kgs	400	880	60	19,440	44,352	51	2	53
Beans Model	No.	600	1,235	60	23,040	43,798	60	2	62
Sweet potatoes	No.	2,000	3,000	50	78,000	127,500	95	2	97
Cassava Model	No.	2,000	3,333	70	117,600	205,325	83	2	85
Goat finance model	Kgs	-	2	11,000	85,595	171,190	150	15	165
Goat's meat processing & selling	Kgs	10	70	450	767,025	2,301,075	250	20	270
Piggery livestock model	No.	4	10	400	123,520	308,800	220	10	230
Pork processing and selling	Kgs	10	30	400	1,225,980	3,064,950	250	20	270
Dairy cow Model	Ltrs	5,400	10,800	40	166,320	357,048	200	4	204
Dairy goat model	Ltrs	360	1,440	90	30,456	125,712	100	2	102
Coolers enterprise model	Ltrs	-	5,000	42	689,931	2,299,770	300	10	310
Total					6,938,920	14,935,118	2,879	585	3,464
					7,996,198	54%	83%	17%	100%

Justification on family labour.

17. The labour budget used in the models is based on the experience of the ongoing projects in Kenya. The price has been justified[1]. Labour costs have also been based on the financial models successfully used in the EFA analysis for KCEP-CRAL, KEL-COP, UTaNRMP and SDCP. Family labour budget in economic models has been estimated at KES 278, and hired labour at KES 557.

18. Project economic costs and benefits. The economic analysis includes the investment and incremental recurrent costs of the project components. The project financial costs have been converted to economic values by removal of price contingencies, taxes and duties. In order to avoid double

[1] https://africapay.org/kenya/salary/minimum-wages/minimum-wage-rates-in-kenya-2

counting, the final aggregation considered only those costs that were not included in the financial models. Costs of replacing/maintaining of some specific small equipment are considered.

19. Benefits estimation: Incremental production was calculated by calibrating the incremental benefits by the standard conversion factors and then aggregating them, based on the phasing of household and enterprises uptake during the project implementation period.

20. Based on the expected farmers' responsiveness to the project, the assumption on farmers' participation is smooth the first years, and increases from project activities such as extension, market development, technical assistance, training and awareness. Incremental aggregated financial and economic budgets, production and inputs including labour, financial and economic efficiency measures, and other technical and economic indicators were then calculated. The phasing of beneficiaries' participation to the Project activities was based on the rate at which beneficiaries are projected to contribute to Project output.

Beneficiary and household phasing;

21. Beneficiary and household phasing has been derived as follows:

Table 7; Beneficiaries and household phasing for Rural Credit Guarantee Scheme.

COMPONENT 2.1	Y1	Y2	Y3	Y4+	Y5	Y6	TOTAL	
CGS Guarantees USD	2,500,000	5,000,000	5,000,000	7,500,000			20,000,000	25%
by IFAD	2,000,000	2,000,000	1,000,000				5,000,000	75%
by GoK	500,000	3,000,000	4,000,000	7,500,000			15,000,000	
CGS supported loans USD (by PFIs)	10,000,000	20,000,000	20,000,000	30,000,000			80,000,000	15,000,000
CGS loans #	3,917	7,833	7,833	21,167			40,750	14,400,000
CGS outreach to HHs	13,500	27,000	27,000	40,500			108,000	44,400,000
Among outreach to HHs								
Investing HHs	3,917	7,833	7,833	21,167				
Farmer network benefitting	20,000	40,000	40,000	60,000				
Employment	5,556	11,111	11,111	16,667				
		USD/loan		1,417				
		USD/outreach		741				
		USD/farmer		500				
		USD/job		1,800				

Table 8. Beneficiaries and household phasing for Green Financing Facility.

Computation of number of beneficiaries							
	Y1	Y2	Y3	Y4	Y5	Y6	Total HH
Disbursement plan (GFF) USD millions							
Cycle 1 loan	5	10	5	-		-	
Cycle 2 loan	-	-	5	10	5	-	
Cycle 3 loan	-	-	-	-	5	10	
Cycle 4 loan	-	-	-	-	-	-	
Cycle 5 loan	-	-	-	-	-	-	
Computation of number of beneficiaries (assuming 50% loan repeaters							
Cycle 1 loan	5	10	5	-		-	
Cycle 2 loan	-	-	2.5	5	2.5	-	
Cycle 3 loan	-	-	-	-	2.5	5	
Cycle 4 loan	-	-	-	-	-	-	
Cycle 5 loan	-	-	-	-	-	-	
Dsibursement to new customers	5	10	7.5	5	5	5	
Number of beneficiaries	3,633	7,267	5,450	3,633	3,633	3,633	27,250

Table 9;Summary of beneficiaries and household phasing for R-CGS & GFF.

D)								
		Year 1	Year 2	Year 3	Yea 4	Year 5	Yea 6	Total
RCGS-Investmenting HHs/ a	no	3,917	7,833	7,833	21,167			40,750
GFF- Borrowers	no	3,633	7,267	5,450	3,633	3,633	3,633	27,250
		7,550	15,100	13,283	24,800	3,633	3,633	68,000
a/in addition to this there the following								
Farmer network benefitting	#	20,000	40,000	40,000	60,000			160,000
Employment	#	5,556	11,111	11,111	16,667			44,444
Total Beneficiaries HH								272,445

Table 10; Overall economic analysis showing Incremental net benefit and cash flow at the project level.

E. OVERALL ECONOMIC ANALYSIS

Project year	**BENEFITS**			**COSTS**			**CASH FLOW**
	Incremental Benefits R-CGS	Incremental Benefits GFF	Total Net Inc. Benefits (millions)	Investment Costs	Recurrent Costs	Total Incremental Costs	
PY1	*0*	*0*	*0*	2,146	52	*2,197*	**- 1,318**
PY2	*196*	*182*	*377*	4,012	52	*4,064*	**- 2,212**
PY3	*587*	*484*	*1,071*	3,474	52	*3,526*	**- 1,473**
PY4	*1,766*	*794*	*2,559*	4,268	52	*4,320*	*- 1,056*
PY5	*2,284*	*1,214*	*3,498*	193	52	*245*	*1,952*
PY6	*2,715*	*1,656*	*4,370*	81	52	*133*	**2,542**
PY7	*3,582*	*2,121*	*5,703*	-	-	-	**3,422**
PY8	*4,688*	*2,578*	*7,265*	-		-	**4,359**
PY9	*4,688*	*2,624*	*7,312*	-		-	**4,387**
PY10			-	-		-	**-**
			-	-			**-**
			-	-		-	**-**
NPV@ 13% (KES Millions)							**2,217**
NPV@ 13 % ('000 USD)							**22,169**
EIRR							**23%**

BCR Benefits 32,157 costa **14,486** BCR 2.2

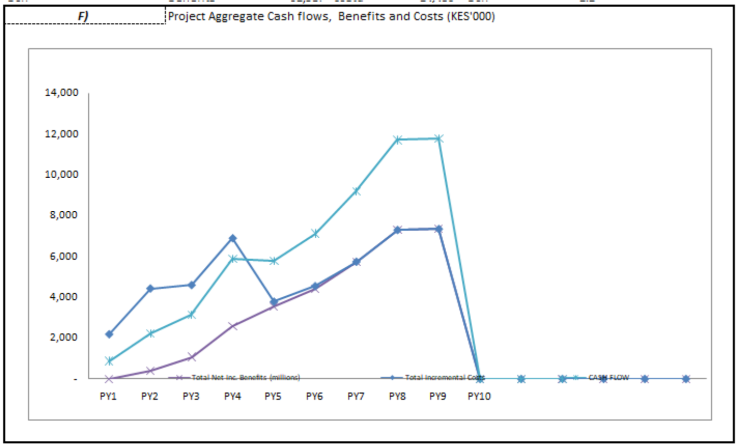
22. **Components and Activities.** To achieve the RK-FINFA Project Goal and Development Objective, the project activities are structured into three mutually reinforcing components:

Table 11;Project components and activities.

Component 1:Technical Support and Innovation Services (TSIS);	☞	USD. 8,250,000	The capacity of all 41 PFIs built to implement and monitor green investment portfolios.
Component 2: Rural Investment Instruments. 1. Rural Credit Guarantee Scheme. 2. Green Financing Facility	☞	USD. 120,000,000	Improvements in the productivity of smallholder operations through modern cultivation methods and climate smart technologies, linking farmers to well-operating value chains and building farmer capacity to increase their readiness for innovation and diversification.
Component 3: Enabling Rural Finance Environment and Project Coordination.	☞	USD. 5,800,000	The activities of this sub components to promote policies and institutional arrangements that support the medium and longer-term development of a more conducive operational environment for the Rural Credit Guarantee Scheme and the Green Financing Facility.

23. Incremental crop production will either be consumed by the households in the Project area or sold to local and external traders in the primary, secondary and terminal markets. Sales are made both for consumption in large cities.

Graph 1. Cash flow of incremental benefits, costs and net cash flow:



24. The Economic Internal Rate of Return (EIRR) on the investments in the Project area over 6 years is estimated at 23 per cent and the Net present value (NPV) of the project is positive (US$ 22.1 Million; KES 2.2 Billion). The economic analysis suggests that the RK-FINFA Project is feasible. All these worthiness indicators establish the economic feasibility of the project.

25. **Sensitivity analysis.** An increase in programme costs by 10 per cent will reduce the EIRR to 20 per cent, while a decrease in overall programme benefits by 20 per cent will result in an EIRR of 16 per cent. A one-year delay in benefits reduces the EIRR to 20 per cent and a two-year delay to 17 per cent. The switching values show that the project will remain economically viable if benefits decreased by 16 per cent, or programme costs increased by 27 per cent. An examination of the response of the project to identified project risks including droughts reveals it remains viable in the face of multiple short and medium drought sequences (EIRRs of 17 per cent and 23 percent respectively). The project would become unviable in the severe longer-term drought (EIRR of below 13 percent), but historical trends and projections do not foresee such a long-term weather shock for Kenya.

Table 12;Sensitivity Analysis.

Sensitivity analysis				
		IRR	NPV (KES M)	Link with risk analysis
Base Scenario		23%	2,217	
Decrease of Project benefits	-10%	20%	2,632	Continous climate shocks such as drought & floods, and occasional locusts invasion. This can majorly impact on loan repayment thus portfolio of the PFIs, leading to decrease of project benefits
	-20%	16%	1,045	
	-30%	14%	431	
Delay of benefits	1 year	20%	2,548	Delay in replenishment and disbursement of funds by financiers is a key risk tha can highly impact on the delay of project benefits.
	2 years	17%	1,106	Insufficient financial monitoring and reporting most especially in such projects with various financing sources can easily hinder project benefits. Related to the above, lengthy government processes to establish PMUs and recruit staff is also a factor which can lead to delay of project benefits
Adoption rates	90%	19%	2,287	Low uptake of good practices
	80%	16%	880	
	70%	14%	401	
Cost Increase	10%	20%	2,657	High inflation/Macroeconomic fundamentals
	20%	17%	1,695	
	30%	14%	580	
Increase of benefits	10%	25%	4,303	
	20%	29%	6,510	

Justification for discount rate.

Social discount rate (discount rate used for economic analysis):

26. The Kenya 10Y Government Bond has a 13.148%[2] yield.

Justification on own consumption and post harvest loss.

27. Self-consumption and posted harvest/production losses have been factored into the analysis and considered in the various models but at various percentages to reflect the reality of how much a household can consume. Own consumption has been estimated from a range of 5% to 20% according to the production level of each model. Post-harvest losses are expected to be reduced in from a high percentage in WOP to lower percentage in WP situation due to modern farming skills and access to finance.

[2] http://www.worldgovernmentbonds.com/country/kenya/

Table 13; Summary of models showing justification of own consumption.

Summary of Models - Own Consumption

Model	Unit of measure	% assumed	WOP	WP		
			Year 0	Year 1	Year 2	Year 3
Maize Model	Kgs	10%	200	240	300	400
Sorghum	Kgs	1%	180	198	216	234
Sale of maize flour	Kgs	7%	175	228	263	280
sale of sorghum flour	Kgs	1%	77	84.7	92.4	100.1
Tomato model	Kgs	3%	150	187.5	225	300
Local Chicken Model	No.	10%	11	14	18	21
Broilers Chicken Model	No.	3%	18	24	36	48
Layers Chicken Model	No.	1%	4	9	12	15
Green Grams	Kgs	12%	48	58	96	106
Beans Model	No.	20%	120	132	180	200
Sweet potatoes	No.	7%	140	168	182	210
Cassava Model	No.	6%	120	144	168	200
Goat's meat processing & selling	Kgs	1%	19	29	48	58
Piggery livestock model	No.	2%	6	10	13	16
Pork processing and selling	Kgs	1%	34	50	74	84
Dairy cow Model	Ltrs	8%	432	648	734	821
Dairy goat model	Ltrs	2%	7	20	24	29
Coolers enterprise model	Ltrs	1%	-	288	414	460

Table 14; Summary of models showing justification of Post harvest/production loss.

Summary of Models - Post harvest loss

Model	Unit of measure	% assumed (WOP)	% assumed (WP)	WOP	WP		
				Year 0	Year 1	Year 2	Year 3
Maize Mode	Kgs	15%	10%	300	240	300	400
Sorghum	Kgs	4%	2%	100	65	75	80
Sale of maize	Kgs	8%	5%	2,880	1,980	2160	2340
sale of sorgh	Kgs	5%	2%	770	339	369.6	400.4
Tomato mod	Kgs	15%	7%	750	438	525	700
Local Chicke	No.	20%	14%	36	48	59	70
Broilers Chic	No.	2%	1%	12	16	24	32
Layers Chick	No.	5%	3%	5	9	12	15
Green Gram	Kgs	7%	4%	28	19	32	35
Beans Mode	No.	16%	7%	96	46	63	70
Sweet potat	No.	15%	8%	300	192	208	240
Cassava Mod	No.	10%	6%	200	144	168	200
Goat's meat	Kgs	5%	3%	26	39	66	79
Piggery lives	No.	2%	1%	5	7	10	12
Pork process	Kgs	2%	1%	42	63	92	105
Dairy cow M	Ltrs	15%	5%	810	405	459	513
Dairy goat m	Ltrs	4%	1%	14	10	12	14
Coolers ente	Ltrs	11%	5%	146	208	250	292

Explanation that there is no double counting of costs between the models and costab.

28. The nature of this project such that inputs are not being directly financed, there cannot be any double counting of costs. There's no cost included in any model which will come from the costs included in the costab. In conventional agricultural/livestock projects, costs included in the models but also in costab are supposed to be deducted in the aggregation/ERR/NPV computation. However, in a project like this (RK-FINFA), even the line of credit, funds will flow back given the nature of the loans. The beneficiary will repay the loan to the bank and the funds will revolve meaning that the lending is not a write-off and not an expense incurred by the project as a one off. So, in substance, the inputs in the models will have been financed by the beneficiary except the project will have helped in creating access to credit. The real cost of credit, has however been factored into the analysis.

Table 15; Project costs by component and by category.

Summary of Costs by Components
(Thousands of United States dollars)

Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Components Project Cost Summary

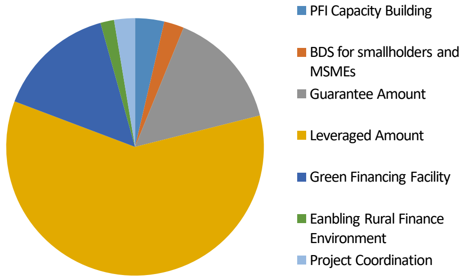
	US$ '000 Total	% Tot Base Cost
A. Technical Support and Innovation Services		
1. PFI Capacity Building	4,900	[illegible]
2. BDS for Smallholders and MSMEs	3,350	[illegible]
Subtotal	8,250	[illegible]
B. Rural Investment Instruments		
1. Rural Credit Guarantee Scheme		
Guarantee Amount	20,000	1
Leveraged Amount	80,000	6
Subtotal	100,000	7
2. Green Financing Facility	20,000	1
Subtotal	120,000	9
C. Enabling Rural Finance Environment and Project Coordination		
1. Enabling Rural Finance Environment	2,300	[illegible]
2. Project Coordination	3,500	[illegible]
Subtotal	5,800	[illegible]
Total PROJECT COSTS	134,050	10

Project costs by expenditure category
(Thousands of United States dollars)

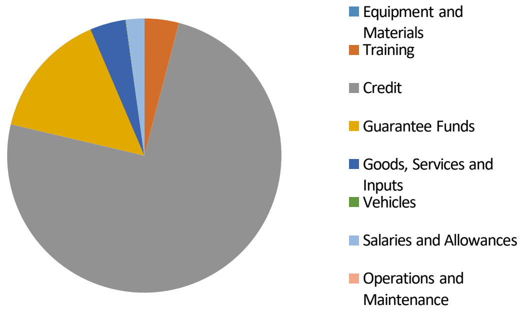
Kenya
Project Design Mission for Rural Kenya Financial Inclusion Facility (RK-FINFA
Expenditure Accounts Project Cost Summary

	(US$ '000) Total	% Total Base Costs
I. Investment Costs		
A. Equipment and Materials	27	-
B. Training	5,420	4
C. Credit, Guarantee Funds		
Credit	100,000	75
Guarantee Funds	20,000	15
Subtotal	120,000	90
D. Goods, Services and Inputs	5,644	4
E. Vehicles	80	-
Total Investment Costs	131,170	98
II. Recurrent Costs		
A. Salaries and Allowances	2,880	2
B. Operations and maintainance	-	-
Total Recurrent Costs	2,880	2
Total PROJECT COSTS	134,050	100

Summary of Costs by Components
(Thousands of United States dollars)



Project costs by expenditure category
(Thousands of United States dollars)



Description of selected enterprise models:

29. As already stated above, the end target of the above projects (WP) is the starting of (WOP) of RK-FINFA in various models.

30. **Sorghum.** KCEP CRAL has been supporting production and productivity of cereals including sorghum using the e-voucher facility. Farmers are desirous to expand production and productivity which obviously requires financing and that's RK-FINFA comes in. If a typical beneficiary under KCEP CRAL, is to double productivity, the following working capital need and associated cost of financing emerges:

If this beneficiary is enabled to access the financing at affordable cost, income change will increase from KES 18,000 WOP to revenue of KES 39,618 WP after accounting for the cost of financing. As a result of access to finance, the ongoing projects in Kenya have confirmed that farmers can be able to increase their yield level (production and productivity) from the end target of ongoing project (RK-FINFA) which is the WOP of RK FINFA of 2,500 Kgs to WP of 4,000 Kgs of sorghum. This change will have significant impact on the beneficiaries' livelihoods.

The Republic of Kenya
Rural Kenya Financial Inclusion Facility (RK-FINFA)

Sorghum	Unit/ Measure	Without Project Year 0			With Project Year 1			Year 2			Year 3			Yr 1	Yr 2	Yr 3
	Units	Qty	Unit Price/ cost	Total-KES	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Amount	Amount	
Sales(Revenue)		2,500	20	50,000	3,250	**20**	65,000	3,750	20	75,000	4,000	20	80,000	65,000	75,000	80,000
Total costs				**25,805**									**32,391**	**34,474**	**27,133**	**32,391**
Gross Margin before capex				18,695									**40,409**	**24,676**	**41,117**	**40,409**
Cost of financing														**790**	**790**	**790**
Net cash flow after capex														23,886	40,327	39,618
Incremental Benefit with and without project														5,191	21,632	20,924

Return to family labour*	539
Discount rate	13%
NPV	99,517
PVb	377,087
PVc	172,461
B/C ratio	2.19
Switching values Benefits	(0.54)
Switching values Costs	1.19

31. The need for working capital; The above increase in production and productivity comes with need for working capital. This now brings in the justification for RK-FINFA. As it can be seen from above, it means to achieve that gross, farm costs would increase from KES 25,805 to KES 32,391. To afford this change, this beneficiary would need a loan in the region of KES 6,586 which would cost that household a financial cost of around KES 790after the project has brought in the targeted efficiency gains by bringing down the interest rate from a high of 18% to a low of 12% which is feasible. Even after factoring in this financial cost, the abridged model above shows the beneficiary would remain with positive cash flow which illustrates affordability. This working capital will be mainly needed for improved seeds, proper fertilizers hired labour and other agronomic inputs.

Cost of Financing (KES)

Financing needed for the increase in production or productivity:				
	WOP	**WP**	**Working capital needed**	**Cost of financing at 12%**
Working capital changes	25,805	32,391	6,586	790

32. **Dairy goats.**Under the closed SDCP, dairy goats were found to be viable investments. With improved access to finance, a typical beneficiary under SDCP can increase the herd up to 2 or even more. The model however has been based on a herd of 2 and the following working capital need and associated cost of financing will emerge.

33. If this farmer is enabled to access the above financing at affordable cost of financing, income change will increase from KES 4,520 WOP to revenue of KES 74,706 WP after accounting for the cost of financing. As a result of access to finance, the ongoing projects in Kenya have confirmed that farmers can be able to increase their yield level (production and productivity) from the end target of ongoing project (RK-FINFA) which is the WOP of RK FINFA of 360 Litres to WP of 1,440 Litres of milk.

Republic of Kenya
Rural Kenya Financial Inclusion Facility (RK-FINFA)

Dairy Goat	Unit/ Measure	Without Project			With Project											
		Year 0			Year 1			Year 2			Year 3			Yr 1	Yr 2	Yr 3
	Units	Qty	Unit Price/ cost	Total- KES	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Amount	Amount	
Sales(Revenue) Milk	Ltrs	360	100	36,000	1,008	**100**	100,800	1,188	100	118,800	1,440	100	144,000	100,800	118,800	144,000
Total costs				29,320			**103,394**			**59,894**			**61,154**	**103,394**	**59,894**	**61,154**
Gross Margin before capex				4,520									**78,526**	**(5,618)**	**55,342**	**78,526**
Cost for Financing														**3,820**	**3,820**	**3,820**
Net cash flow after capex														(9,438)	51,522	74,706
Incremental Benefit with and without project														(38,758)	22,202	45,386

Return to family labour*	785
Discount rate	13%
NPV	152,352
IRR /a	89%
PVb	697,348
PVc	366,228
B/C ratio	1.90
Switching values Benefits	(0.47)
Switching values Costs	0.90

34. The need for working capital. The above increase in production and productivity comes with need for working capital. This now brings in the justification for RK-FINFA. As it can be seen from above, it means to achieve that gross, farm costs would increase from KES 29,320 to KES 61,154. To afford this change, this beneficiary would need a loan in the region of KES 31,834 which would cost that household a financial cost of around KES 3,820 after the project has brought in the targeted efficiency gains by bringing down the interest rate from a high of 18% to a low of 12% which is feasible. Even after factoring in this financial cost, the abridged model above shows the beneficiary would remain with positive cash flow which illustrates affordability.This working capital will be mainly needed for increasing the number of improved does and proper feeds.

Cost of Financing (KES)

Financing needed for the increase in production or productivity:				
	WOP	**WP**	**Working capital needed**	**Cost of financing at 12%**
Working capital changes	29,320	61,154	31,834	3,820

35. **Dairy Cows.** Still under the closed SDCP, dairy cow were also found to be viable investments. With improved access to finance, a typical beneficiary under SDCP can increase the herd up to 2 improved heifers or even more. The model however has been based on a herd of 2 and the following working capital need and associated cost of financing will emerge.

36. If this farmer is enabled to access the above financing at affordable cost of financing, income change will increase from KES 56,589 WOP to revenue of KES 166,137 WP after accounting for the cost of financing. As a result of access to finance, the ongoing projects in Kenya have confirmed that farmers can be able to increase their yield level (production and productivity) from the end target of ongoing project (RK-FINFA) which is the WOP of RK FINFA of 5,400 Litres to WP of 10,800 Litres of milk per year.

Republic of Kenya
Rural Kenya Financial Inclusion Facility (RK-FINFA)

Dairy Cow	Unit/ Measure	Without Project			With Project											
		Year 0			Year 1			Year 2			Year 3			Yr 1	Yr 2	Yr 3
	Units	Qty	Unit Price/ cost	Total- KES	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Amount	Amount	
Sales(Revenue) Milk	Ltrs	5,400	42	226,800	8,100	**42**	340,200	9,720	42	408,240	10,800	42	453,600	340,200	408,240	453,600
Total costs				118,047			**329,981**			**211,261**			216,661	**329,981**	**211,261**	**216,661**
Gross Margin before capex				56,589									**177,971**	**(34,007)**	**143,908**	**177,971**
Cost for Financing														**11,834**	**11,834**	**11,834**
Net cash flow after capex														(45,841)	132,074	166,137
Incremental Benefit with and without project														(102,430)	75,485	109,548

Return to family labour*	890
Discount rate	13%
NPV	227,704
IRR /a	82%
PVb	2,010,744
PVc	1,264,669
B/C ratio	1.59
Switching values Benefits	(0.37)
Switching values Costs	0.59

37. The need for working capital. The above increase in production and productivity comes with need for working capital. This now brings in the justification for RK-FINFA. As it can be seen from above, it means to achieve that gross, farm costs would increase from KES 118,047 to KES 216,661. To afford this change, this beneficiary would need a loan in the region of KES 98,614 which would cost that household a financial cost of around KES 11,834 after the project has brought in the targeted efficiency gains by bringing down the interest rate from a high of 18% to a low of 12% which is feasible. Even after

factoring in this financial cost, the abridged model above shows the beneficiary would remain with positive cash flow which illustrates affordability.This working capital will be mainly needed for increasing the number of more improved heifers and proper feeds.

Cost of Financing (KES)

Financing needed for the increase in production or productivity:				
	WOP	**WP**	**Working capital needed**	**Cost of financing at 12%**
Working capital changes	118,047	216,661	98,614	11,834

38. **Chicken Layers.** Under the livelihood component of Upper Tana project, poultry enterprise is proving successful. With many chances for a typical beneficiary to expand the operation if allowed access to finance and that's where RK-FINFA comes in to compliment. While Upper Tana has enabled these beneficiaries to have a 150 bird farm size, if allowed access to finance, these beneficiaries could go up to 500 birds or even more hence enhancing egg production. This analysis assumes an increase from the 150 bird farm size that Upper Tana Project has managed to support the beneficiaries to 500 birds which is feasible.

39. If this farmer is enabled to access the financing at affordable cost, income change will increase from KES 28,000 WOP to revenue of KES 210,000 WP after accounting for the cost of financing. As a result ofaccess to finance, the ongoing projects in Kenya have confirmed that farmers can be able to increase their yield level (production and productivity) from the end target of ongoing project (RK-FINFA) which is the WOP of RK FINFA of 800 trays of eggs to WP of 2900 trays of eggs due to the increase in number of bird farm size. This change will have significant impact on the beneficiaries' livelihoods.

The Republic of Kenya

Kenya Rural Finance Project (KRFP EFA template)

Broilers Chicken Model (500) YIELDS AND INPUTS			WOP	WITH PROJECT									
ITEMS	**UNIT**	**PRICE(KES)**		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Main production													
Chicks	Number		150	300	400	500	500	500	500	500	500	500	500
Total number of trays of eggs expected per batch	trays		146	291	388	485	484.52	484.52	484.52	484.52	484.52	484.52	484.52
Main production revenue													
Net available trays of eggs per year			215,413	430,826	574,937	717,324	717,324	717,324	717,324	717,324	717,324	717,324	717,324
Net available production- off layers			33,750	33,750	135,000	180,158	224,775	224,775	224,775	224,775	224,775	224,775	224,775
Total revenue			*249,163*	***215,413***	***574,937***	***717,324***	***717,324***	***717,324***	***717,324***	***717,324***	***717,324***	***717,324***	***717,324***
Total investment & labour costs			**221,099**	**451,929**	**448,504**	**474,762**	**489,762**	**474,762**	**474,762**	**489,762**	**474,762**	**474,762**	**489,762**
Cost of Financing				**30,440**	**30,440**	**30,440**	**30,440**	**30,440**	**30,440**	**30,440**	**30,440**	**30,440**	**30,440**
Gross Margin after CAPEX			**28,063**	**(266,955)**	**95,993**	**212,123**	**197,123**	**212,123**	**212,123**	**197,123**	**212,123**	**212,123**	**197,123**
Additional benefits (Incremental Income)				(488,055)	95,993	212,123	197,123	212,123	212,123	197,123	212,123	212,123	197,123
Income (before labour costs)			-	**(432,375)**	**151,673**	**267,803**	**252,803**	**267,803**	**267,803**	**252,803**	**267,803**	**267,803**	**252,803**

Return to family labour*	1,061
*consider full development year family labour requirements	
Discount rate	13%
NPV @ 0.13148	414,899
IRR	34%
NPVb	3,314,654
NPVc	2,540,149
B/C ratio	1.30
Switching values Benefits	-23%
Switching values Costs	30%

40. The need for working capital; The above increase in production and productivity comes with need for working capital. This now brings in the justification for RK-FINFA. As can be seen from above, it means to achive that gross, farm costs would increase from KES 221,099 to KES 474,762. To afford this change, this beneficiary would need a loan in the region of KES 253,663 which would cost that household a financial cost of around KES 30,440 after the project has brought in the targeted efficiency gains by bringing down the interest rate from a high of 18% to a low of 12% which is feasible. Even after factoring in this financial cost, the abridged model above shows the beneficiary would remain with positive cash flow which illustrates affordability.This working capital will be mainly needed for increasing the number of birds, improved proper feeds.

Cost of Financing (KES)

Financing needed for the increase in production or productivity:				
	WOP	**WP**	**Working capital needed**	**Cost of financing at 12%**
Working capital changes	221,099	474,762	253,663	30,440

41. **Tomatoes.**Tomatoes crop model has been used as a representative of horticulture enterprise.Horticulture enterprises are quick yielding investments and usually farmers would go for

credit to finance both increase in productivity and production. In the model used in this analysis, with improved access to better seeds, agronomic inputs, payment for hired labour, Upper Tana project has demonstrated that on one hectare farm of tomato, yields can improve from 5,000 kg to 10,000 kg, but this would require working capital to have this kind of change.

42. If this farmer is enabled to access the above financing at affordable cost of financing, income change will increase from KES 88,000 WOP to revenue of KES 290,000 WP after accounting for the cost of financing. As a result of access to finance, the ongoing projects in Kenya have confirmed that farmers can be able to increase their yield level (production and productivity) from the end target of ongoing project (RK-FINFA) which is the WOP of RK FINFA of 5,000 kgs to WP of 10,000 Kgs of tomatoes. This change will have significant impact on the beneficiaries' livelihoods.

The Republic of Kenya

Rural Kenya Financial Inclusion Facility (RK-FINFA)

Tomato	Unit/ Measure	Without Project			With Project								
		Year 0			Year 1			Year 2			Year 3		
	Units	Qty	Unit Price/ cost	Total- KES	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount	Qty	Unit price/ cost	Amount
Sales(Revenue)	kgs	5,000	60	300,000	6,250	**60**	375,000	7,500	60	450,000	10,000	60	600,000
Total costs				**157,080**			**217,148**			**224,704**			**274,593**
Gross Margin before capex				**88,920**									**265,407**
Cost of Financing													
Net cash flow after capex													
Incremental Benefit with and without project													

Return to family labour*	2,965
Discount rate	13%
NPV	688,329
PVb	1,608,049
PVc	1,218,888
B/C ratio	1.32
Switching values Benefits	(0.24)
Switching values Costs	0.32

43. The need for working capital; The above increase in production and productivity comes with need for working capital. This now brings in the justification for RK-FINFA. As it can be seen from above, it means to achieve that gross, farm costs would increase from KES 157,080 to KES 274,593. To afford this change, this beneficiary would need a loan in the region of KES 117,513 which would cost that household a financial cost of around KES 14,102 after the project has brought in the targeted efficiency gains by bringing down the interest rate from a high of 18% to a low of 12% which is feasible. Even after factoring in this financial cost, the abridged model above shows the beneficiary would remain with positive cash flow which illustrates affordability. This working capital will be mainly needed for improved seeds, proper fertilizers hired labour and other agronomic inputs.

Cost of Financing (KES)

Financing needed for the increase in production or productivity:				
	WOP	**WP**	**Working capital needed**	**Cost of financing at 12%**
Working capital changes	157,080	274,593	117,513	14,102

44. Nineteen (19) enterprise models have been run similar to the above description which also shows financial viability, if target beneficiaries are allowed affordable access to finance. These are included in the detailed worksheet.

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 5: Social Environment and Climate Assessment (SECAP) Review Note

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Annex 5: Social Environment and Climate Assessment Procedures

1. Introduction

1. The Social Environment and Climate Assessment Procedures (SECAP) Annex details the analysis of the social, environmental and climate change risks and opportunities of RK-FINFA project. The Annex outlines the contextual background and recommends risk management and opportunities maximisation measures. It has been produced mainly using literature review of county and national strategies, surveys conducted by other organisations and development partners as well as the SECAP documents produced for on-going IFAD financed projects. The environment and climate change analysis also drew on the national commitments and targets from the multilateral conventions. Primary data was collected during discussions with potential beneficiaries from on-going IFAD financed projects, Participating Financial Institutions (PFIs) and officers from Government Agencies. No site visits to potential intervention areas were conducted due to the remote nature of the design. However, the engagement will be continued throughout the project life cycle particularly through the sensitization, planning and review sessions with PFIs and end line beneficiaries during the selection, monitoring and reporting processes.

2. Situational analysis and potential project impacts

2.1 Socio-economic and nutritional assessment

2. **Overall poverty situation** - Kenya has experienced relatively fast growth since 2000 that has translated into gains in the fight to reduce poverty, with about 4.5 million Kenyans escaping poverty between 2005/6 and 2015/16. In that period, poverty, measured as people under the national poverty line, declined from 46.8% to 36.1% of the population. Poverty declined considerably in rural areas, from about 50% in 2005-06 to 38.8% in 2015-16, largely accounting for the reduction at the national level. Although trends in household food security (availability, accessibility and stability) have generally improved over the last three decades in Kenya, food insecurity continues to persist due to the stagnation of agricultural production, low use of agricultural technology, high food prices, frequent disasters and the effects of climate change on the mainly rain-fed agriculture and a decline in resilience of pastoral livelihoods, especially in the northern frontier counties. The food security situation is further affected by seasonality, with rapid deterioration during drought years resulting in emergency levels of acute malnutrition. The demographics of the initial 14 target counties of RK-FINFA are presented in the table below, illustrating a predominantly rural population in the counties and the poverty index.

Table 1: Demographic details on the target counties[1]

No.	County	Population	Number of Households	Household Size	Land Area (Sq. Km)	Population Density	Poverty Index (%)	Percentage[2] Rural Population	Rural Population	Rural Youth Population	% Youth to Rural Population
	Kenya	**47,564,296**	**12,143,913**	**3.9**	**580,876**	**82**	**45.2**	**72.0**	**34,246,293**		
1	Bungoma	1,670,570	358,796	4.6	3,024	552	47.3	88.6	1,480,125	508,873	34.4
2	Busia	893,681	198,152	4.5	1,696	527	60.4	87.3	780,184	270,310	34.6
3	Embu	608,599	182,743	3.3	2,821	216	35.3	87.5	532,524	183,966	34.5
4	Kakamega	1,867,579	433,207	4.3	3,020	618	49.2	90.1	1,682,689	562,951	33.5
5	Kirinyaga	610,411	204,188	3.0	1,478	413	25.2	77.7	474,289	154,258	32.5
6	Kisii	1,266,860	308,054	4.1	1,323	958	51.4	88.0	1,114,837	385,983	34.6
7	Machakos	1,421,932	402,466	3.5	6,043	235	24.1	70.9	1,008,150	341,565	33.9
8	Meru	1,545,714	426,360	3.6	7,006	221	31.0	91.0	1,406,600	496,628	35.3
9	Nakuru	2,162,202	616,046	3.5	7,462	290	33.5	51.6	1,115,696	415,829	37.3
10	Nandi	885,711	199,426	4.4	2,856	310	40.7	93.3	826,368	306,008	37.0
11	Nyeri	759,164	248,050	3.0	3,325	228	27.6	80.1	608,090	184,772	30.4
12	Siaya	993,183	250,698	3.9	2,530	393	38.2	91.4	907,769	302,968	33.4
13	Tharaka Nithi	393,177	109,860	3.6	2,564	153	41.0	91.7	360,543	121,531	33.7
14	Trans Nzoia	990,341	223,808	4.4	2,495	397	52.8	82.0	812,080	279,758	34.4

[1] Kenya 2019 Population Census
[2] https:www.citypopulation.de/en/Kenya/admin/eastern/16_embu ("the county") – 2019

3. **Gender –** Kenya has made significant progress over the years in the advancement of gender equality and women's empowerment. Women constitute about 51% of the Kenyan population. The Global Gender Gap Index 2020 of the World Economic Forum placed Kenya at position 109 out of 153 countries. The 2010 constitution, Vision 2030, national gender policies and other programs support gender equality. Similarly, the Public Procurement Act of 2015 reserves 30% of public procurement opportunities for women, youth and persons with disabilities (PWD). The government-established Women Enterprise Fund (2009) and the Uwezo Fund (2014), in which a number of banks are participating, will merge into the newly established Biashara (business) Fund, aimed to consolidate reach to smallholders, women, youth and other vulnerable groups. Nevertheless, entrenched socio-cultural norms and attitudes continue to disadvantage women in Kenya. Discrimination in land ownership and property rights are the main barriers in access to finance. Female farmers and entrepreneurs in agriculture lack access to credit, resources and business assets, high cost of credit while gender norms and intra-household power relations influence women's control over resources and decision-making power in their households and the community. Only 59% of women borrowed from a credit source and cannot in most cases decide alone how that credit would be used. Women usually receive credit from informal sources, such as friends, relatives and merry-go-rounds. Lack of control over income and time-use and heavy workload for women and lack of women's leadership and decision making over economic activities continue to be among the challenges faced by women. There is a hesitance to borrow from formal lenders, such as banks, because of a fear of repossession of property in case of a default[3].

4. Women typically receive less than 10% of the credit awarded to smallholders and only 1% of the total credit directed to agriculture. This is much lower for younger women and those with disability, who have no access to assets. This limits women's economic growth[4] and is one of the root causes of poverty. Gender Based Violence (GBV) at 45%, disparities in labour force participation (men 77.35% and women 72.51%5), unequal workloads and unequal participation in decision making further exacerbate the situation for women. At the same time, women face challenges in access to commercial and formal credit services. Women are often unable to meet loan conditions, specifically collateral requirements. Many financial institutions lack confidence in businesses owned by women or have inefficiencies in collateral registration processes. Women are seen to lack management skills, due to relatively low levels of education and technical skills especially in the rural areas. They often lack proper business financial records and their capacity to prepare viable business plans is limited.

5. In summary, the success of women in agribusiness is not only determined by the level of access to credit, resources and business assets, but also by gendered-specific behaviour and roles, which influences women's decision-making power and control around the available resources and business assets. Tackling the inequalities that exist between men and women therefore also requires a change in gendered perceptions, attitudes and practice by all actors. It should be noted that, available evidence indicates women-owned small businesses have the lowest proportion of non-performing loans, much lower than the proportion among men, showing that women and women-owned businesses are more prudent borrowers than their male counterparts.

6. **Youth –** Around 35.7 million Kenyans (75.1%) are below 35 years, and 32.73 million (68.9%) live in rural areas, with unemployment rate at 39%[6]. The

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[3] https://snv.org/cms/sites/default/files/explore/download/empowering_women_in_agribusiness_through_social_behaviour_change_kenya_vietnam.pdf
[4] https://www.afdb.org/en/documents/document/kenya-country-gender-note-for-kenya-in-the-context-of-the-bank-csp-2014-2018-mid-term-review-is-gender-a-number-one-poverty-issue-107493
[5] World Bank Data Atlas
[6] 2019 Kenya National Bureau of Statistics (KNBS) National Census

Government has put in place various legal, institutional and policy frameworks and institutions to empower the youth. These include the State Department in charge of youth, the Kenya Youth Employment and Opportunities Project, the National Youth Council, National Youth Service, the Youth Enterprise Fund, among others. The Kenya Youth Development Policy (2019) and Kenya Youth Agribusiness Strategy (2017) underscore the importance of positioning the youth at the forefront of agricultural growth and transformation for national development. The Government is keen to support the youth's involvement in agri-businesses through access to innovative agricultural technologies and integrated use of ICT[7]. Currently, over one million young people enter into the labour market annually having either dropped out of school or completed high school and are not enrolled in any institution of higher learning or lack requisite skills. Despite few opportunities in the job market, agriculture is not considered by the youth as a preferred business option largely because majority of farmers practice traditional farming methods or operate poorly remunerated rural enterprises that do not lead to decent livelihoods. As a result, the youth perceive agriculture only as a second best option or a career of last resort[8].

7. Youth are 33% less likely to have a savings account than adults and 44% less likely to save in a formal institution. In Kenya, despite the low account uptake rate among female youth, they save as much or more compared to male youth[9]. Younger youth save more than the older, because younger youth withdraw less money from their accounts than older youth. However, working with youth would pose challenges because they would require an adult guarantor to enable them to open a bank account or to borrow money. By the age of 18, almost a third have mobile money accounts. Youths are attracted to financial institutions that reach out to them. Evidence indicates direct outreach programmes by financial institutions in locations where the youth gather facilitate overall account uptake. Challenges affecting youth access to affordable finance include limited financial literacy, limited incomes, lack of a savings culture and lack of access to land and assets for use as collateral, making it difficult for young people to achieve their potential and to access the opportunities available, especially the agriculture value chains, which are dominated by older farmers.

8. Other constraining factors for the youth include the negative perceptions of financial service providers (FSPs) regarding youth in agriculture, lack of desirable products to attract youth and lack of FSP capacity to service rural youth. Young people have the potential to contribute and benefit from the higher levels of the agricultural value chain through creation of jobs and employment. Therefore, improving access to finance especially using digital platforms can lead to increased participation of young people in off-farm activities as intermediaries, brokers and market-information agents. In particular, young women are increasingly taking part in off-farm opportunities, including operating retail shops and organising transport activities for agricultural produce. Such activities are especially suitable for young women because they provide them with employment opportunities closer to their homes.

9. **Indigenous peoples** - In Kenya, the people who identify with the indigenous groups are estimated to number approximately 79,000, and are found among the pastoralist communities of Turkana, Rendille, Borana, Maasai, Samburu, Ilchamus, Somali, Gabra, Pokot and Endorois communities, mainly living in the Arid and Semi-Arid Lands (ASALs). Few of these groups are within the IFAD-supported projects' catchment areas. They regularly experience land tenure and food insecurity, poor service delivery, weak political representation, as well as general discrimination and exclusion.[10] Kenya has no specific legislation governing indigenous peoples and abstained from voting when the UN

[7] https://ict.go.ke/wp-content/uploads/2020/08/Kenya-Youth-Development-Policy-2019.pdf
[8] 2017 Kenya Youth Agribusiness Strategy
[9] https://sparkassenstiftung-easternafrica.org/fileadmin/user_upload/Youths___Savings.pdf
[10] https://www.iwgia.org/en/kenya

Declaration on the Rights of Indigenous Peoples (UNDRIP) was adopted by the UN General Assembly in 2007. Kenya has yet to ratify the ILO Convention 169 on indigenous and tribal peoples. However, the 2010 Constitution specifically recognises minorities and marginalized communities as a result of various historical processes, with specific reference to indigenous peoples and guarantees protection of minorities and marginalized groups. Despite these progressive constitutional provisions, indigenous peoples continue to suffer as a result of the State's lack of compliance with these provisions and with legal rulings on land issues. Moreover, the principle of Free, Prior and Informed Consent (FPIC) remains a dream for indigenous peoples in Kenya[11].

10. **Marginalised groups** - Kenya is a country of great ethnic, linguistic, cultural and religious diversity. The 2010 Constitution guarantees the rights of minorities, such as the Nubians and Somalis. However, access to basic services and opportunities remains a challenge. Although the relationship has generally been one of tolerance, divisions between Christians and Muslims are of growing significance. In recent years political conflict on ethnic lines has increased, exacerbated by the combination of divisive politicics and economic decline. Particularly vulnerable minorities include Muslims and nomadic pastoralists such as Somali and Maasai. Others include Persons Living with HIV and AIDS and Persons Living with Disabilities (PWDs), who are estimated to represent around 4.6 per cent of the whole population in Kenya. More PWDs live in rural than in urban areas. A quarter of PWDs work on family farms or MSMEs but about a third are unemployed.[12] As the other marginalised people, PWDs often face challenges in accessing education, health care and financial services and are vulnerable to food insecurity and hunger. To address this, PWDs access grants and loans from the Government National Council of PWDs and the *Uwezo* Fund.

11. **Nutrition** - Malnutrition in Kenya is characterized by the coexistence of (i) undernutrition as manifested by stunting, wasting, underweight; (ii) micronutrient deficiencies; and (iii) overweight and obesity including diet-related non-communicable diseases[13]. Out of 7.22 million children under five, nearly 1.9 million are stunted (26 per cent); 290,000 wasted (4 per cent); and 794,000 (11 per cent) underweight[14]. There are notable geographical and social demographic variations in the severity of malnutrition. Out of the 47 counties, nine have prevalence of stunting above 30%, a level categorized as "severe" and of public health significance. Annual costs for malnutrition related to health, education and labour productivity are estimated between 1.9% and 16.5% GDP. Further, the risk of overweight/obesity and diet-related non-communicable diseases in adults is rising[15]. A total of 28% of adults aged 18–69 years were either overweight or obese, with the prevalence for women at 38.5% and men 17.5%. On the other hand, considerable progress has been made in reducing the prevalence of micronutrient deficiencies, except for zinc deficiency. The prevalence of anaemia was highest in pregnant women (41.6 per cent), followed by children of 6–59 months (26.3%) and school–age children (5–14 years) at 16.5%. An analysis on breastfeeding and complimentary feeding shows remarkable improvement, with 81%of breastfed children aged 6–9 months receiving complementary foods in addition to breastfeeding[16]. On dietary diversity, 95%of adults aged 18–69 years did not consume the World Health Organisation (WHO) daily recommended five servings of fruits and/or vegetables; fruits were consumed on average about 2.4 days in a week, and vegetables were consumed five days in a week[17].

[11] Ibid
[12] Kenya National Survey for PWDs, preliminary report, 2007
[13] Kenya National Nutrition Action Plan 2018-2022
[14] Kenya Health Demographic Survey (KDHS) 2014
[15] Kenya National Nutrition Action Plan 2018-2022
[16] KDHS 2014
[17] Kenya National Nutrition Action Plan 2018-2022

12. The underlying causes for the above are food insecurity including availability, economic access and use of food; feeding and care practices at individual, household and community level; environment; and poor access to and use of health services[18]. The basic causes of malnutrition, which act on the macro level include issues such as knowledge and education (literacy), politics and governance, leadership, infrastructure and financial resources. Therefore, addressing the forms of malnutrition at all three levels of causation requires actions that have the potential to improve nutrition outcomes across the spectrum through integrated initiatives, policies and programmes.

2.2 Environment and climate context, trends and implications

13. **Environmental assessment** – This section focuses on the environment and natural resources context of the initial 14 counties that RK-FINFA will be implemented in: Bungoma, Busia, Embu, Kakamega, Kirinyaga, Kisii, Machakos, Meru, Nakuru, Nandi, Nyeri, Siaya, Tharaka Nithi and Trans-Nzoia.

14. Bungoma County is within the Lake Victoria Basin and includes Mt. Elgon whose forest ecosystems are critical in the hydrological cycle, local biodiversity and plant production. The County encompasses six agro ecological zones suitable for crops such as cotton, coffee, sugarcane, maize, beans, tea, Irish potatoes, tomatoes and onions. Environmental degradation in the county has resulted in reduced crop yields and animal productivity and loss of biodiversity. The main causes of degradation include sub-optimal agricultural practices, deforestation through illegal logging and soil erosion. Busia County also mostly falls within the Lake Victoria Basin with peneplain marked by low flat divides and a shallowly incised swampy drainage system. Its vegetation includes medium altitude forest as well as grass and wooded savannas with diverse wildlife.[19] Major land uses are crop production and livestock farming. The main causes of environmental degradation are sub-optimal agricultural practices and expansive agriculture. Embu County is covered by two distinct agro-climatic profiles on the windward side of Mt. Kenya, from cold and wet upper zones to hot and dry lower zones in the Tana River Basin. The main contributors to environmental degradation in the county include, sand harvesting, land degradation, deforestation especially in farming areas, illegal logging and charcoal burning.

15. Kakamega County has two main ecological zones, the Upper and Lower Medium. The former covers the Central and Northern parts of the county with intensive maize, tea, beans and horticultural cultivation. The Lower Medium, covers mainly the southern part and economic activity is predominantly sugarcane production along with maize, sweet potatoes, tea, groundnuts and cassava production. Environmental degradation is caused by poor waste management, quarrying, sub-optimal land use practices and encroachment on the gazetted forest land, hill tops and slopes. Kirinyaga County three ecological zones, lowland, midland and highland areas. The lowland area is characterized by gentle rolling plains while the highland area covers the whole of the mountain area. The County is well endowed with a thick, indigenous forest with unique types of trees covering Mt. Kenya and is inhabited by a variety of wildlife. The lower parts of the forest zone provide grazing land for livestock. Agriculture is the most important activity and main crops include rice, tea, coffee, bananas, tomatoes, beans, mangoes, maize and other horticultural crops. The major causes of environmental degradation are deforestation, poor solid waste disposal, cultivation along river banks by the community, and pollution from industries and farmers[20]. Kisii County has three ecological zones, the most dominant being the Upper Midland, Lower Highland and Lower Midland. The County's main food crops include maize, beans, finger millet, bananas, sweet potatoes, cassava, arrow roots, sorghum, tomatoes, carrots, avocados and vegetables while cash crops include coffee, tea, pyrethrum and

[18] World Health Organization, & The World Bank, 2012
[19] Busia County Government, County Integrated Development Plan, 2018-2022
[20] Kirinyaga County Government, County Integrated Development Plan, 2018-2022

sugarcane[21]. The main causes of environmental degradation are cultivation on fragile areas such as steep slopes, wetlands, riparian reserves and quarrying activities for hard core and ballast. Deforestation, raw discharges of effluent and poor farming practices cause loss of biodiversity and leave the soil bare making it prone to soil erosion. The water catchment areas have been degraded by logging.

16. Machakos County is covered by seven agro ecological zones suitable for maize, beans, dairy, coffee, mangoes, pigeon pea, cow peas and indigenous poultry. The County is the largest national exporter of sand, the harvesting of which results in drying up of some rivers. Apart from the sand harvesting, environmental degradation is also caused by industrial discharges, emissions from factories and industries and deforestation, linked to charcoal burning. Meru County has varied ecological zones ranging from upper highlands, lower highlands, upper midlands and lower midlands. The major land use in the County is agriculture, both crop farming and livestock-keeping. The crops include wheat, barley, potatoes, millet, sorghum, maize, high grade tea, coffee, bananas and miraa (khat). The main causes of environmental degradation include sub-optimal farming practices, mining and overstocking of livestock. The major degraded areas within the County comprise of river, hill and forest ecosystems[22]. Nakuru County includes the Mau Escarpment that contains forests and the source of Njoro River that drains into Lake Nakuru, one of the tourist attraction sites in Kenya. The County has 13 agro ecological zones suitable for maize, beans, Irish potato, wheat, dairy, poultry, barley and horticulture. Environmental degradation in the County mainly results from sub-optimal farming methods, poor solid and liquid waste disposal, soil erosion, inadequate sanitary facilities, deforestation for firewood, encroachment of forest reserves and land clearing for agricultural use. Use of agro-chemicals leads to water pollution through the effluent discharge.

17. Nandi County has minimal variation among the five agro-ecological zones that are suitable for dairy, maize, wheat, pyrethrum, barley and coffee. The main causes of environmental degradation include deforestation, poor waste management, unplanned settlement and development and discharge of industrial effluents. Nyeri County has two forest eco-systems, Aberdare and Mt. Kenya, which play vital roles such as maintenance of water cycle, wildlife habitat and are also repository of a wide range of biodiversity. The main cultivated food crops are maize, beans, Irish potatoes and vegetables while the major cash crops are coffee, tea and horticulture. Main causes of environmental degradation include cultivation on fragile areas such as steep slopes, wetlands, riparian reserves and quarrying activities that lead to landslides and soil erosion hence reduced productivity. Overall natural resources ability to support the population has declined e.g. reduced farm productivity due to soil erosion, over cultivation of the land, increased scarcity of resources such as water, grazing lands and arable area[23]. Siaya County geomorphology includes Dissected Uplands, Moderate Lowlands and Yala Swamp with different relief, soils and land use patterns.[24] Its forest vegetation provides natural habitat for birds and indigenous plants. The County is also home to the Lake Kanyaboli National Reserve, which is part of the Yala swamp complex. [25] The main land use is small-scale agriculture. The main causes of environmental degradation are the sub-optimal agricultural practices, deforestation and land clearing for agricultural purposes. Tharaka-Nithi County has two main ecological zones, the highlands, which receive adequate rainfall for agriculture and the semi-arid (lower zone) that receives less rainfall and is therefore more suitable for livestock production. The main causes of environmental degradation include sub-optimal farming and soil conservation methods, poor waste management practices, logging, charcoal burning and clearing of land for agricultural activities. Strong winds also result in erosion and reduced soil infertility. Trans Nzoia County has three main agro-ecological zones. The

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[21] Kisii County Government, County Integrated Development Plan, 2018-2022

[22] Meru County Government, County Integrated Development Plan, 2018-2022.

[23] Nyeri County Government, County Integrated Development Plan, 2018-2022.

[24] Siaya County Government, County Integrated Development Plan, 2018-2022.

Upper Highland is suitable for sheep and dairy farming, while the Lower highland is suitable for Pyrethrum, wheat, tea, maize, barley, sunflower, coffee and horticulture as well as cattle and sheep rearing. The Upper Midland is suitable for maize, sunflower, coffee, wheat, barley and horticulture as well as dairy, beef and sheep. Environmental degradation within the County is mainly caused by sub-optimal farming practices, deforestation and soil erosion.

18. As noted above, most Counties face the challenges of environmental degradation resulting from sub-optimal agricultural practices, encroachment in forests, slopes and hills, poor waste management and land clearing for agricultural production. Therefore the investments from RK-FINFA would have to provide support and incentives to the beneficiaries to help address these current challenges. In addition the knowledge of the beneficiaries will have to be enhanced to improve the management of natural resources while improving their agricultural productivity and building on their traditional knowledge. Investment advice will be required for the beneficiaries to make informed decisions that will benefit their livelihoods in the medium and long term. The ASALs, that include parts of Embu, Machakos, Meru, Nyeri and Tharaka Nithi Counties for the initial coverage of the RK-FINFA, need particular attention. Investments in livestock may increase land degradation in some of these regions due to increased pressure on the natural resources and overgrazing resulting in soil fertility decline and reduced availability of quality pasture (GoK, 2019b; GoK and IFAD, 2019). Therefore measures to reverse current trends of land degradation will have to be factored into the investments and portfolios in these Counties.

19. **Climate trends and impacts** – This section presents the historic climate trends, future projections and implications as well as the current responses to climate change in the initial 14 countries of RK-FINFA.

20. Bungoma County's erratic and unpredictable weather patterns, particularly rainfall, have resulted in declines in volumes of species of indigenous flora and fauna and terrestrial and freshwater biodiversity. These patterns have negatively impacted agriculture productivity and provision of ecosystems services leading to increased food insecurity. Busia County's future climate projections show an increase in intense precipitation resulting in increased flooding risk. The increase in temperature and greater rainfall variability will affect wildfires with the fire season likely to increase in duration and severity. Embu County has experienced increased temperatures, heat and moisture stress from dry spells and excessive rainfall, which increasingly compromise the agricultural activities of smallholder farmers. Kakamega County's mean temperatures have increased by approximately 0.4 and 0.3°C for the first and second agricultural seasons respectively and resulted in a moderate increase in heat stress days during these periods. Rainfall variability from year to year has also increased, resulting in an increased risk and uncertainty of occurrence of floods and droughts. In Kirinyaga County, future climate projections identify a likely increase in temperature and rainfall variability. Wildfires are likely to increase in duration and severity. An increase in intense precipitation due to the effects of climate change is also expected to increase flood occurrence. Kisii County's future climate projections show an increase in temperature and rainfall variations. Wildfire season is likely to increase in duration and severity of fires. Machakos County has experienced mean temperature increase that are more pronounced in the first agricultural season. Precipitation trends depict a decline, which is more pronounced during the first season, where it is about 25 mm. This trend is projected to continue and thus affect agricultural productivity.

21. Meru County climate change projections depict an increase in temperature and rainfall variability altering the slope and bedrock stability in some areas. The wildfire season is likely to increase in duration and intensity. Nakuru County has endured extreme weather conditions like flooding, heavy rains and drought. Mean temperatures are projected to increase by 0.3ºC, with the first agricultural season projected to experience

even greater changes. Precipitation is projected to increase by 0.3% and 6% in the first and second wet season respectively. Nandi County usually experiences dry spells and mean temperatures have been increasing gradually. These trends will continue in the future and therefore affect agricultural productivity. Nyeri County's future climate entails an increase in temperature and rainfall variability. The wildfires are expected to increase and be more severe. Siaya County's future climate projections show an increase in intense precipitation with flooding more likely to occur. Wildfires ae also expected to increase both in frequency and intensity due to increase in temperature and rainfall variability. Tharaka-Nithi County's mean temperatures have increased by approximately 0.6°C and resulted in a moderate increase in heat stress days in the first and second agricultural seasons. Severe and mild droughts have been experienced leading to poor crop yields and low livestock production. Trans Nzoia County has experienced changes in rainfall patterns, which are expected to be more intense in the future. These changes result in reduced soil fertility and poor soil structure while higher temperatures and atmospheric humidity favours development of crop pests and diseases.

22. As indicated above, some of the intial RK-FINFA Counties are within the ASALs, which are highly vulnerable to extreme weather events, particularly drought that continues to affect agricultural productivity and predominantly pastoralist livelihoods. Prolonged droughts in the ASALs have contributed to the long-term environmental changes such as deforestation, drying up of rivers and shallow wells, land degradation, re-emergence of climate related diseases and amplified wildlife-human conflicts. The medium and high potential regions in which most of the other initial RK-FINFA Counties lie, are relatively cooler, wetter with mean annual temperatures lower compared to the ASALs. In these regions, farmers have noted changing seasonality, i.e. delayed onset of rains, unreliability and variability of rains, reduced or increased amounts of rainfall and higher temperatures during the dry season. Intense rainfall events have been recorded and resulted in floods in some parts of these Counties.

23. Farmers in the various Counties initially targeted by RK-FINFA have adopted various types of strategies to cope with climate change in their locations. These include soil and water conservation and protection of catchment area measures such as terraces, diversion and infiltration ditches, planting pits, conservation agriculture techniques, planting of napier grass and fodder trees. Agricultural productivity climate change adaptation techniques include staggered cropping, adoption of improved early maturing and drought-tolerant crop varieties, integrated pest management, use of indigenous knowledge in post-harvest handling and disease control, water harvesting and use of irrigation. Soil nutrients are managed through mulching, composting, using improved fallows and more optimal use of fertilizers. Off-farm strategies include early warning systems, insurance schemes, extension education, value addition on various commodities, credit, storage facilities, market information and diversification of enterprises. Some farmers also have access to accurate and timely weather information to help farm level planning and decision making in terms planting dates, crop and varieties selection and harvesting periods. RK-FINFA support will have to build on the current strategies being adopted by target beneficiaries based on their local climate change risks. This support will be through diversifying the options for climate change adaptation, enhancing the climate risk management knowledge to inform the selection of options and also through the products that will be offered through RK_FINFA PFIs.

24. **Climate change mitigation.** The focus of the RK-FINFA end line investments is expected to be predominantly targeted at climate change adaptation. However, in line with Kenya Green Economy Strategy and Investment Plan (GESIP) as well as the climate change mitigation priorities in the Nationally Determined Contributions (NDCs), investments in activities such as renewable energy and efficient use of natural resources will be promoted.

2.3 Poverty and target group profiles

25. The primary target group for this project will be economically active low-income smallholders and rural micro-entrepreneurs, including the vulnerable, poor, food insecure, women headed households and young women and men interested in agricultural production and entrepreneurial activities along agricultural value chains. These include traders, processors, transporters, agro-vet dealers, input suppliers, animal health service providers, etc. The project will ensure inclusion of women and youth, marginalized groups and persons with disabilities, the poor and food insecure. They will be largely classified as:

26. **Smallholder farmers producing at subsistence level with potential for growth.** Agribusiness is important for economic opportunities especially to the poorest households. These households can have very little land around their dwelling and few, productive assets. A significant proportion of these households are likely to be women-headed households with children under five years, who are likely to experience malnutrition. The number of dependents may be higher than average and include members who are vulnerable, adolescents, persons with HIV, persons with disabilities, and children out of school. These households depend for their livelihoods on casual labour, trading groceries and other small trades. Coping mechanisms include reliance on traditional safety nets such as borrowing from family, friends, village bank savings and 'merry go rounds", in which each person contributes a part of their daily earnings and each day a different person receives a loan collected from the members on a revolving basis.

27. Smallholders in this category are involved in subsistence farming and agribusiness with low level of production. They lack access to inputs to increase their production for consumption and to make their production market-oriented. These farmers own an average of ≤2ha of land or one to two fish ponds or equivalent and have very limited access to productive assets and inputs for market-oriented production. Most women and youth have no access to the land and lack productive assets to act as collateral. In addition, apart from mobile money, very few have bank accounts or links to financial education, knowledge and advice. They may be members of informal or financial organizations at village level, but they are usually reluctant to borrow from commercial FIs due to limited business skills and poor mindsets. The beneficiaries to be supported among this group will be expected to be members of farmer groups and organizations and to benefit from improved access to financial products and services such as 'group lending', financial literacy and Business Development Services.

28. **Medium size farmers, and enterprises and producers involved in Value Chain (VC) activities.** The group comprises of economically active/entrepreneurial small and medium holders requiring support for surplus production and entrepreneurship activities. These will include rural Households already engaged in crop, livestock, aquaculture and fish farming and production. These households produce goods for home consumption but also trade goods for other necessities, and sell their crops, livestock or fish for income. Specific opportunities and products will be developed to meet the interests and capacities of women and youth of different ages, including support towards access to finance and land. This group will also include existing MSMEs and SME agro-dealers in processing and marketing parts of the VCs.

29. Few specialized farmers may be organized into formally established and legally registered producers and/or processors cooperatives or organizations. These farmers may have a market-oriented approach but have limited access to financial products services to reach more commercial markets. This category will comprise of 50% women and 30% youth.

30. **Financial Service Providers (FSPs).** These include commercial banks, microfinance banks and institutions including SACCOS. The Programme will provide technical support to key financial institutions including targeted support to women and youth product development and friendly services, in order to improve rural access to

financial products and services for agribusiness. Staff in the financial institutions involved in the project will benefit from capacity building interventions including training and business skills to improve outreach, know your customer requirements such as alternative collateral for women, youth and PWDs, product development and tailored outreach to these groups.

31. Smallholder farmers comprising of women, men, young males and females involved in rural microenterprises will represent about 90 per cent of the total number of RK-FINFA beneficiaries, and will include 50 per cent women and 30 per cent youth. Under-employed rural people and especially youth represents about 10 per cent of RK-FINFA beneficiaries. Marginalized and vulnerable groups i.e. PWDs, PLWHAs, indigenous groups, ethnic and religious minorities such as the Muslims will constitute 5 per cent of the target beneficiaries.

3. Institutional analysis

32. RK-FINFA will include the following institutions as implementing and co-financing partners: Financial Sector Deepening Kenya (FSDK), Alliance for a Green Revolution in Africa (AGRA), and the AMEA network in Kenya through its lead NGO, CORDAID International. The project will consider organising operational partnerships as well as strategic collaborations. In particular, the synergy points include joint support to Credit Guarantee Scheme and the enabling environment for financial sector outreach to microenterprises. Other partnership opportunities include: (i) United Nations - GoK flagship programme called SDG Partnership Platform, with special window for Food and Agriculture, for public advocacy and communications with potential investors, (ii) African Development Bank's ENABLE youth initiative; (iii) the European Union AgriFi and AgriBiz projects, (iv) Land o'Lakes corporation regional value chain commercialization project "Dairy Nourishes Africa (DNA)". The project will explore opportunities to work with and learn from the Government led national Youth and Uwezo[26] Funds which target youth and women respectively and are merging into the Biashara[27] Fund under the Ministry of Public Service and Gender and Youth. At County and Sub-County levels, RK-FINFA will work with community-based organizations such as farmer's groups, VSLAs, women and youth groups and networks to ensure equitable representation of all key stakeholders.

33. The 2010 Constitution, Vision 2030 and National Gender policy (2011) support gender equality. Similarly, the Public Procurement Act of 2015 reserves 30% of public procurement opportunities for women, youth and PWD. The government established Women Enterprise Fund (2009) and the Uwezoi Fund (2014) in which a number of banks are participating will merge into the newly established Biasharaii Fund, aimed to consolidate reach to smallholders, women, youth and other vulnerable groups. These are coordinated by the State Department for Gender under the Ministry of Public Service and Gender. Other relevant institutions include the National Gender and Equality Commission (NGEC), Ministry of Labour, Social Security and Services, National Council for People with Disabilities and National Council for Children Services. The Government has also put in place various legal, institutional and policy frameworks and institutions to empower the youth. These include the State Department in charge of youth, the Youth Enterprise Fund, the Kenya Youth Employment and Opportunities Project, the National Youth Council, National Youth Service, the Youth Enterprise Fund, among others. The Kenya Youth Development Policy (2019) and Kenya Youth Agribusiness Strategy (2017) underscore the importance of positioning the youth at the forefront of Agricultural growth and transformation for national development. The nutrition commitments are articulated in the National Comprehensive School Health policy (2007); National Food and Nutrition Security Policy (2011); National School Health Strategy Implementation Plan (2011) and the

National Nutrition Action Plan (2012) and coordinated under the Ministry of Health, Ministry of Education and Ministry of Agriculture, Livestock and Fisheries.

34. Kenya's National Environment Council provides policy formulation and direction for the purposes of the Environmental Management and Co-ordination Act (EMCA, 1999). The National Environmental Management Authority (NEMA) is the regulatory and advisory body on environmental management in Kenya. NEMA coordinates and supervises various environmental management activities being undertaken by statutory organs with a view to promote the integration of development policies, programme, plans and projects that provide sustainable development. The National Environment Action Plan Committee (NEAPC) is a cross-sectoral committee responsible for the development of a five-year national environment action plan. The national environment action plan contains, among other aspects, an analysis of the natural resources of Kenya and their distribution, quantity and diverse uses. It also recommends legal and fiscal incentives for business that incorporate environmental requirements into their planning and operational processes and sets out guidelines for the planning and management of the environment and natural resources. The national environment action plan is binding on all organs of government. County Environment Committees assist NEMA in effectively carrying out its function of proper management of the environment at county level. The membership of these committees include, representatives of farmers or pastoralists, business community, women and youth, among others.

35. The GoK has undertaken several efforts to manage climate change and build resilience of its sensitive sectors such as agriculture. Kenya's Vision 2030, the overarching development plan, seeks among others to transform smallholder agriculture into an innovative and competitive sector. The Climate Change Act (2016) provides a regulatory framework for an enhanced response to climate change, mechanisms and measures to improve resilience to climate change and promote low carbon development. The Act also seeks to mainstream climate resilience in all development plans. The National Climate Change Policy Framework (2017) seeks to enhance climate change adaptation capacity and build resilience to climate change variability and promote a low carbon pathway. The National Adaptation Plan (2015) highlights short, medium and long-term actions that enhance resilience in the agriculture, livestock and fisheries value chains. The National Climate Smart Agriculture Implementation Plan (2018) outlines climate change impacts on food and nutrition and proposes areas for mitigation, including provision of climate change information services, scaling up of technologies that enhance resilience of the sector and reduce GHG emissions where possible.

36. Kenya's Green Economy Strategy and Implementation Plan (GESIP, 2016-2030) is a blueprint for enhancing low-carbon, resource efficient, equitable and inclusive socio-economic transformation. GESIP will support the country's transition to a sustainable path through five thematic areas and strategies, including: promoting sustainable infrastructure; building resilience; sustainable natural resource management; promoting resource efficiency and social inclusion and sustainable livelihoods. GESIP implementation will be guided by principles for sustainable development including: sustainable consumption and production; equity and social inclusion; resource efficiency, Pollution-Pays-Principle and; precautionary principle and good governance. The private sector has an important role in the implementation of GESIP through adoption of green economy technologies and practices.

4. Environmental and social category

The environment and social categorization of the RK-FINFA is B. This categorization recognises the environmental risks that may result from the project activities, particularly the end line investments by the smallholders and MSMEs, can be avoided and/or minimized with appropriate actions. In order to ensure the minimisation of potential adverse impacts, environmental, social and governance standards will be a criterion for participation in the project by the MSMEs and technical assistance will be provided to strengthen or establish Environment and Social Management Systems (ESMS) for PFIs. The MFBs already provide services and products for sustainable production, biodiversity and environmental protection, energy efficiency and renewable energy and have established ESMS that enable reporting on these portfolios. The ESMS would have to be established in the SACCOs including capacity development for monitoring and reporting systems. The targeted end beneficiaries are in many cases smallholders and entrepreneurs benefiting from IFAD-supported or other donor-funded projects/programmes and therefore have already been receiving training in good practices in environmental and natural resources management. An environment and social management framework will guide the project implementation with specific criteria for screening of investments and steps for establishing or strengthening of the ESMS. RK-FINFA will pay attention to potential social risks related to COVID-19 prevention, GBV, child labour and any unintended consequences in order to put mitigation measures through project activities such as integrating awareness creation on prevention of GBV and child labour.

5. Climate risk category

37. The climate risk classification of RK-FINFA is "Moderate" given that the target end beneficiaries, their livelihoods and the economic activities are exposed to climate-related risks such as floods, droughts and incidence of pests and diseases. These climatic events have already adversely impacted agricultural productivity for smallholders and profitability of agribusinesses, and thus climate change projections should be taken into account in the due diligence for medium and long-term investments. Climate risk screening will be incorporated in the ESMS for the PFIs and into the Environment, Social and Governance standards for the MSMEs. Notably some MFBs already undertake climate risk screening as part of the loan appraisal for smallholders. The risk screening will be complemented by strengthening the service provision for climate risk management advisory services for the target beneficiaries and promotion of investments in climate smart technologies and practices. For the SACCOs, the capacity for climate risk screening will have to be developed including the monitoring systems and products for building the climate resilience of their clients. The products being offered by the SACCOs will also be assessed to incorporate climate change resilience building. Larger PFIs already provide loans for new irrigation systems and water storage reservoirs in water stressed areas, improved inputs such as drought tolerant seed varieties as well as offer weather index-based insurance. Other products include green houses, biogas, and solar energy that contribute to GHG emissions reduction.

6. Recommendations for project design and implementation

38. To ensure the "do no harm'' approach RK-FINFA will ensure the following recommendations into the three mutually reinforcing components:

(a) Component 1: Technical Support and Innovation Services (TSIS); Sub-component 1.1: On PFI Capacity Building for Rural Outreach and Innovation will improve the capacity PFIs to provide financial services to rural agricultural chain actors and provide capacity in form of financial literacy and Business Development Services targeting men, women, youth and marginalized groups. PFIs will also require capacity building to establish or improve Environment and Social Management

Systems. The ESMS will have to incorporate climate risk management and capacity also provided for this including for PFIs to provide adequate advisory services. Specific climate change adaptation options will need to be articulated based on the climate risks identified for the investments that will be made by the target beneficiaries. Options such as insurance services could be provided for extreme events such as droughts and floods, which are projected to occur in all regions. Monitoring and reporting systems of the PFIs for specific portfolios will also be improved.

(b) Component 2: The RK-FINFA will operate with two Rural Investment Instruments: (i) a ***Rural Credit Guarantee Scheme*** (R-CGS), and (ii) a ***Green Financing Facility*** (GFF). Both the R-CGS and the GFF will be designed as sustainable financing vehicles, which can utilize resources from the GoK and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions. The project has a strong focus on women empowerment at 50 per cent and 30 per cent youth and therefore these instruments targets will seek to achieve these. The Green Financing Facility will support small-scale farmers and micro-firms to invest in climate-smart, labour saving and environmentally friendly activities. The GFF also provides opportunities to enhance low emission, climate resilient agricultural development. The financial resources enable the access to and adoption of climate smart technologies for smallholders as well as the MSMEs. In addition to technologies, specific financial products will also be developed and disseminated to support smallholders in climate change risk management. Environmental degradation can be minimised through improved practices and degraded lands rehabilitated through investments by the target beneficiaries. Extreme events such as destructive flooding events and landslides are particularly relevant hazards to be monitored and analysed for agricultural productivity, as these may have detrimental effects on value chains. The adverse impacts extend to disrupting cooling and transportation systems and networks for the agricultural produce.

(c) Component 3: Enabling Rural Finance Environment and Project Coordination. This will support policy engagement and project coordination. On policy engagement, the project could review the challenges of applying alternative collateral for women and youth. Support to regulations and actions to include the larger non-deposit taking SACCOs and the SACCOs with digital service platforms under the regulation and supervision of SASRA (which would qualify them as candidates as wholesale borrowers from Green Financing Facility) – to reach more women and youth in the rural areas.

39. RK-FINFA will undertake detailed gender and youth assessments at baseline or start-up to ensure the development of a Gender Equality Youth and Social Inclusion Strategy early on in the project. The project design includes gender transformational approaches such as the use of the GALS and household methodologies to shape intra-representation quotas at 50 per cent women and 30 per cent youth and targeted interventions focusing on women and youth such as financial literacy as well as tailored product development to meet their needs. The PFIs, other implementing partners and the PMU will require training on gender transformational and youth sensitive approaches as well as review of their policies and practices to include women empowerment and youth actions.

40. Climate financing was explored for RK-FINFA to access resources from the Green Climate Fund's Private Sector Facility. However, based on the size of the project, processing timelines, these resources would be accessed at a later date through a regional financing facility.

7. Further studies needed

41. Given that most of the end line investments of the RK-FINFA are unknown during design, an Environmental and Social Management Framework (ESMF) will be developed to guide implementation. The ESMF will be developed as part of the design and is therefore already included in the design costs. It will focus on the criteria for the GFF investments and outlining steps for the establishment or strengthening of the ESMS. It will also include an elaborated Grievance Redress Mechanism and Stakeholder Engagement Plan. The costs of its implementation will be included in the project budget.

8. Monitoring and evaluation

42. The project target group engagement will take place at different levels encompassing the PFIs and the target groups. The community engagement will be through sensitisation meetings of the project activities and through meetings and consultations with PFIs that will provide the loan products and financial services. The sensitization meetings will take the form of community level public meetings to convey the project objectives, presenting PFIs and criteria and expectations for participation in the project. These meetings will be conducted in local languages and at times that allow maximum participation of different groups, women, men, youth, indigenous peoples, persons with disabilities and other vulnerable and minority groups. Further engagement will be done through PFI officers and community agents comprising of women and youth to ensure successful outreach. These monitoring sessions will also provide an opportunity for feedback on the project services and challenges being faced. The feedback will be used in realignment of the project to ensure achievement of targets especially on women and youth. RK-FINFA has nutrition linkages of contributing to increased incomes leading to more diversified diets but is not considered nutrition sensitive.

43. RK-FINFA monitoring and evaluation (M&E) will include specific responsibility for monitoring targeting performance, beneficiary tracking, and targeting gender, youth and vulnerable groups related aspects of project implementation. All people centred indicators will be disaggregated by sex and age and vulnerability where relevant while the project will track the Empowerment Index at baseline, midterm and end line surveys. Sspecific indicators for the mainstreaming themes have been included in the logical framework based on the IFAD core indicators. In addition to these, more indicators can be included in the project's M&E system such as (i) amount of funds accessed for climate resilient practices (ii) the number of ESMS established/strengthened, and (iii) amount of resources invested in environmentally friendly technologies. The PFIs can also report on number or volume of clean energy (renewable energy and energy efficiency) loans disbursed; number or volume of sustainable and climate smart agriculture loans disbursed; and number or volume of other green (clean transport; afforestation/ reforestation; climate resilient infrastructure) loans disbursed. At the end use level, indicators can include water availability (quality and quantity); agricultural productivity levels; and ecosystem services being provided.

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Group meeting consultations (virtual) with preselected beneficiaries of IFAD ongoing projects

	BENEFICIARY NAME	**CONTACT DETAILS**	**PROJECT**	**AGE**	**SEX**	**County**
1	Roselydia	o724464182	UTaNRMP	35	F 9YOUTH)	Embu
2	Jane Wanjiru Ndungu	O720110928	UTaNRMP	55	F	Kirinyaga
3	Samwel Musyoka Kimuyu	O768856868	ABDP	48	M	Machakos
4	Kassim Masouda Kiwaka	O714566632	KCEP-CRAL	57	M	Kwale
5	Lawrencia Wanja Ireri	O721568061	UTaNRMP	38	F (PWD)	Embu
6	Samuel Ndirangu Gachoka	o721457828	UTaNRMP	35	M (YOUTH)	Nyeri
7	Elizabeth Mwelu Mulei	O724591696	KCEP-CRAL	52		Machakos
8	Job Mawira Gatobu	O704690446	ABDP	35	M (YOUTH)	Meru

[i] Swahili word meaning ‘Enabling’
[ii] Swahili word meaning ‘Business’

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 6: First Annual Work Plan and Budget (AWPB)

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

18 months Annual Work Plan and Budget				
Project Name: Rural Kenya Financial Inclusion Facility (RK-FINFA)				
Principal Recipient: Republic of Kenya				
Currency: US$				
# Budget line by Component, sub component and Activity	**Unit of Measure**	**Unit Cost**	**Year 1 QTY**	**Yr 2 QTY**
Component 1.1. PFI Capacity Building				
1.1.1. TSIS Coordination, M&E and Knowledge Management	Per/Year	300 000	1	1
1.1.2. Bank Services	Per/Year	93 750	1	1
1.1.3. MFB Services	Per/Year	112 500	1	1
1.1.4. SACCO Services	Per/Year	455 000	1	1
Component 1.2. BDS To Borrowers				
1.2.1. Agribusiness BDS Services	Per/Year	300 000	1	1
1.2.2. Small holder Fin Literacy	Per/Year	270 000	1	1
Component 2.1. Credit Guarantee Scheme				
2.1.1. IFAD Financing	Per/Year	1 666 667	1	1
2.1.2. Government financing	Per/Year	3 750 000	1	1
2.1.3. CGS supported loans USD (by PFIs)	Per/Year	20 000 000	1	1
Component 2.2. Green Financing Facility				
2.2.1. Green Financing Facility Investment Capital	Per/Year	6 666 667	1	1
Component 3.1. Enabling Rural Finance Enviroment				
3.1.1. Research reviews documentation	Per/Year	300 000	1	1
3.1.2. Workshops thematic events information dissmination	Per/Year	83 333	1	1
Component 3.2. Project Coordination				
3.2.1. Vehicles, Office and equipment				
1. 2 Vehicles	Per/Vehicle	35 000	2	
2. Vehicle operation and maintainance	Per/Year	6 000	2	2
3. Office equipment and furniture	Lumpsum	10 000	1	
4. Office rent (GoK costs)	Per/month	1 000	12	12
5. Utilities	Per/month	500	12	12
6. Laptops	Per PC	1 200	10	
7. Mobile phones	Per phone	450	10	
8. Mobile phone airtime	Per/Year	15	120	120
3.2.2. M&E, KM and key workshops				
1. M&E systems and costs	Lumpsum	28 700	1	
2. Baseline	Lumpsum	50 000	1	
5. Knowledge management	Per/Year	20 000	1	
6. Start up workshops	Lumpsum	10 000	1	
7. Annual supervision support costs	Per/Year	10 000	1	
10. Project Steering Committee Expenses	Per/Year	1 500	1	
3.2.3. Staff costs				
1. Project coordinator	Per/month	6 000	12	12
2. Financial and Administration Manager	Per/month	5 000	12	12
3. Senior rural finance specialist	Per/month	4 500	12	12
4. Procurement specialist/contract manager	Per/month	4 000	12	12
5. Monitoring & Evaluation Specialists	Per/month	4 000	12	12
6. Value chain finance officer	Per/month	3 000	12	12

7. Rural finance officer	Per/month	3 000	12	12
8. Social inclusion officer	Per/month	3 000	12	12
9. Accountant	Per/month	3 000	12	12
10. Administrator/programme assistant	Per/month	1 000	12	12
11. Two drivers	Per/month	750	12	12
Totals				

Allocation per Quarter								
Q1	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q1**	**Q2**	**Q3**
		1	1	1		-	-	150 000
		1	1	1		-	-	46 875
		1	1	1		-	-	56 250
		1	1	1		-	-	227 500
						-	-	-
		1	1	1		-	-	150 000
		1	1	1		-	-	135 000
						-	-	-
		1	1	1		-	-	833 334
		1	1	1		-	-	1 875 000
		1	1	1		-	-	10 000 000
						-	-	-
		1	1	1		-	-	3 333 334
						-	-	-
	0	0	1	1		-	75 000	75 000
	0	0	1	1		-	20 833	20 833
						-	-	-
						-	-	-
						-	-	-
	2					-	70 000	-
	0	0	1		1	-	1 500	1 500
	1					-	10 000	-
3	3	3	3	3	3	3 000	3 000	3 000
3	3	3	3	3	3	1 500	1 500	1 500
10						12 000	-	-
10						4 500	-	-
30	30	30	30	30	30	450	450	450
						-	-	-
						-	-	-
						-	-	-
	1		1		1	-	10 000	-
						-	-	-
			1			-	-	-
			1			-	-	-
						-	-	-
3	3	3	3	3	3	18 000	18 000	18 000
3	3	3	3	3	3	15 000	15 000	15 000
3	3	3	3	3	3	13 500	13 500	13 500
3	3	3	3	3	3	12 000	12 000	12 000
3	3	3	3	3	3	12 000	12 000	12 000
3	3	3	3	3	3	9 000	9 000	9 000

3	3	3	3	3	3	9 000	9 000	9 000
3	3	3	3	3	3	9 000	9 000	9 000
3	3	3	3	3	3	9 000	9 000	9 000
3	3	3	3	3	3	3 000	3 000	3 000
3	3	3	3	3	3	2 250	2 250	2 250
						133 200	**304 033**	**17 021 325**

Q4	Q5	Q6	Total Amounts (USD)	IFAD Amounts	PFI Amounts	Partners	GoK
150 000	150 000	-	450 000	262 582	-	187 500	-
46 875	46 875	-	140 625	64 688	15 937	-	60 000
56 250	56 250	-	168 750	84 562	16 875	-	67 313
227 500	227 500	-	682 500	341 250	68 250	-	273 000
-	-	-	-	-	-	-	-
150 000	150 000	-	450 000	105 000	78 750	225 020	135 000
135 000	135 000	-	405 000	288 000	48 000	-	121 500
-	-	-	-	-	-	-	-
833 334	833 334	-	2 500 001	2 500 001	-	-	-
1 875 000	1 875 000	-	5 625 000	-	-	-	5 625 000
10 000 000	10 000 000	-	30 000 000	-	30 000 000	-	-
-	-	-	-	-	-	-	-
3 333 334	3 333 334	-	10 000 001	5 000 000	2 506 400	-	2 493 600
-	-	-	-	-	-	-	-
150 000	150 000	-	450 000	180 000	-	162 500	107 500
41 667	41 667	-	125 000	45 972	-	37 500	41 528
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	70 000	35 000	-	-	35 000
3 000	-	3 000	9 000	-	-	-	9 000
-	-	-	10 000	8 000	-	-	2 000
3 000	3 000	3 000	18 000	-	-	-	18 000
1 500	1 500	1 500	9 000	-	-	-	9 000
-	-	-	12 000	12 000	-	-	-
-	-	-	4 500	-	-	-	4 500
450	450	450	2 700	-	-	-	2 700
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
10 000	-	10 000	30 000	30 000	-	-	-
-	-	-	-	-	-	-	-
10 000	-	-	10 000	7 400	-	-	2 600
1 500	-	-	1 500	-	-	-	1 500
-	-	-	-	-	-	-	-
18 000	18 000	18 000	108 000	108 000	-	-	-
15 000	15 000	15 000	90 000	90 000	-	-	-
13 500	13 500	13 500	81 000	81 000	-	-	-
12 000	12 000	12 000	72 000	72 000	-	-	-
12 000	12 000	12 000	72 000	72 000	-	-	-
9 000	9 000	9 000	54 000	54 000	-	-	-

9 000	9 000	9 000	54 000	-	-	-	54 000
9 000	9 000	9 000	54 000	-	-	-	54 000
9 000	9 000	9 000	54 000	-	-	-	54 000
3 000	3 000	3 000	18 000	-	-	-	18 000
2 250	2 250	2 250	13 500	-	-	-	13 500
17 140 159	**17 115 659**	**129 700**	**51 844 076**	**9 441 455**	**32 734 213**	**612 520**	**9 202 240**

Allocations as per Costab			
IFAD	PFI	Partners	GoK
58%	0%	42%	0%
46%	11%	0%	43%
50%	10%	0%	40%
50%	10%	0%	40%
23%	18%	50%	30%
71%	12%	0%	30%
100%			
			100%
	100%		
50%	25%		25%
40%	36%		24%
37%	30%		33%
0.5			0.5
0			1
0.8			0.2
0			1
0			1
1			0
0			1
0			1
0%			100%
100%			0%
100%			0%
0%			100%
74%			26%
0%			100%
1			0
1			0
1			0
1			0
1			0
1			0

0			1
0			1
0			1
0			1
0			1

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 7: Procurement Plan for first 18 months

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Guidance Note

Overview of the template

The template provides excel worksheets for (i) Guidance, timelines and (ii) the actual Procurement Plan

Worksheets for the Procurement Plan

SUMMARY | GOODS | WORKS | CONSULTING

- **Goods, Works, Consulting:** used to enter procurement plan data. **Note:** Non-consulting services should be inserted in any of the categories for Goods, Works and Consulting depending on the nature of the services.
- **Summary:** displays a summary of amounts by category, and procurement thresholds.

Worksheets for Guidance and timelines

- **Guidance:** quick reference guidance on how to use the template.
- **Time Estimation:** estimated timelines by procurement methods, based on experience and guidance in the Procurement Handbook where specified.

Procurement Summary

The Summary worksheet displays basic information, total amounts and procurement thresholds for the project.

Populating the Procurement Plan Summary

Procurement Plan SUMMARY

Country:	Wakanda
Project Name:	Community Livestock and Agriculture Project (CLAP)
Project ID:	2000001234
Version	1.0
Version Date	01-Jan-20
Prepared by:	
Approved by:	

Procurement Category	Plan		Actual	
Currency	USD	LCU	USD	LCU
Goods	-	-	-	-
Works	-	-	-	-
Consulting Services	-	-	-	-
TOTAL	-	-	-	-

STEP 1: Enter the **Country**, **Project Name**, Project ID, **Version**, **Version Date** and Name(s) of the person(s) preparing and/or approving the Plan.

Managing versions, updates and upgrades

The Version of the Procurement Plan (and the version date) must be updated for every **Update** and **Upgrade** to the Plan. This version update shall be made to the summary sheet only. It will be automatically populated to the other sheets. The first digit (1.0) should be kept for the entire 18 or 12 months period that represents the Plan's duration and changed in the next period/year (for example, Year/Period 1: 1.0. Year/Period 2: 2.0). The second digit represents updates and upgrades.

An **Update** is the filling in the contents of the **Actual** rows in the Procurement Plan

All other changes are **Upgrades.** For Prior Review, upgrades require an IFAD NO

Do not populate this section. Total amounts are automatically calculated from the Procurement Plan Sheets for each category.

Prior Review Thresholds

Thresholds	Goods		Works	Non-Consulting Services	Firms - Consulting Services	Individuals - Consulting Services
Prior Review	≥ US$ 0.00		≥ US$ 0.00	≥ US$ 0.00	≥ US$ 0.00	≥ US$ 0.00

*All Direct Contracting and Single-Source Procurements are **Prior Review** (in alignment with IFAD Procurement Handbook).*

Procurement Method Thresholds

	Shopping	NCB	ICB
Goods	< US$ 0.00	≥ US$ 0.00 to ≤ US$ 0.00	> US$ 0.00
Works	< US$ 0.00	≥ US$ 0.00 to ≤ US$ 0.00	> US$ 0.00
Non-Consulting Services	< US$ 0.00	≥ US$ 0.00 to ≤ US$ 0.00	> US$ 0.00
	ICS/CQS	**LCS**	**QCBS**
Individuals	< US$ 0.00	≥ US$ 0.00 to ≤ US$ 0.00	> US$ 0.00
Firms	< US$ 0.00	≥ US$ 0.00 to ≤ US$ 0.00	> US$ 0.00

ncy | USD — USD, SDR, EUR

pes | Amount (USD) — Amount (USD), Amount (SDR), Amount (EUR)

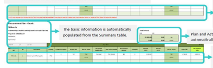
Note: If currency is neither USD nor LOCAL CURRENCY, modify the USD labels in the template using the dropdowns where provided or typing directly if required option is not available.

STEP 2: Enter the **Prior Review Thresholds and Procurement Method Thresholds** for the project. These are defined in the Letter to the Borrower.

Goods, Works and Consulting Worksheets

Planning and Actual data on each procurement item is entered in these worksheets, by category. All worksheets are generally structured the same way.

Overall Structure of the Worksheets



For each worksheet, 3 rows (Plan, Actual and a blank row) are provided at the to facilitate copying/pasting of new items, or retrieval of plan date formulas. **Do not edit/delete these rows.**

The basic information is automatically populated from the Summary table.

Plan and Actual total amounts are calculated automatically.

A Procurement item should be expressed in a **Planned Row** and an **Actual Row**, with a blank row at the bottom.

Adding a New Procurement Item

STEP 1: To add a new procurement where rows are still available, fill out all the items in the Plan until you get to the date. This is the "**Basic Data**" section, and reference to the corresponding AWPB, Procurement No., Description, Funding, Number of Lots, Project Area (where applicable), Procurement/selection methods and the Planned Amount in USD **or** Local Currency. *The date cells for Goods and Works start with the cell directly under **Submission of PreQual** docs, and for the Consulting Services worksheet, the cell directly under **Submission of REOI**.*

AWPB/Component Ref	No	Description*	Funding	Project Area	Plan vs. Actual	Shortlist (Yes/No)	Prior or Post Review	Procurement Method	Amount (USD)	Amount (LCU)
RRB.CS.01	1	Climate Vulnerability Assessment	IFAD	All targeted districts	Plan	Yes	Prior Review	QCBS	64 000.00	
					Actual				-	-

You can only enter amounts in one currency for each

NEW! Select "Yes" for Non-consulting activities.

Submission of REOI	No Objection Date	REOI Launch Date
Enter Date		

STEP 2: Based on the selected criteria, you will be prompted to **Enter the first date** of the process in the relevant field.

	EOI Shortlist Procedure						
Plan vs. Actual	Submission of REOI	No Objection Date	REOI Launch Date	EOI Submission Deadline	Submission of Shortlist Report	No Objection Date	Submission of RFP/RCQ
Plan	1-Feb-20	8-Feb-20	10-Feb-20	2-Mar-20	16-Mar-20	23-Mar-20	27-Mar-20
Actual							

Planned dates are calculated using formulas, from **start to finish**. **Note:** If you enter a Procurement Method that is not listed in the dropdown, the formulas will not work, however you may proceed with manual entry.

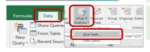
Modifying Planned Dates

Planned dates provided by the formulas are not prescriptive and may be modified as needed.

- **Planning from Finish to Start:** As long as no manual entries have been made to the planned dates and the formulas are still in place, you can **adjust the timeline based on an END DATE** as follows:

No-objection Date	Date Contract Award	Date Contract Signature
22-Aug-20	24-Aug-20	31-Aug-20

STEP 1: Follow steps 1 and 2 in the previous section, entering a start date. Once you have planned dates in the cells based on the formulas, **select** the cell that contains the **last/finish date.**



STEP 2: Click **Data** and select the dropdown menu on the button called **What-If Analysis**. Select the **Goal Seek** feature from the dropdown.

Goal Seek

Set cell:	AG16
To value:	30/11/20
By changing cell:	M16

OK | Cancel

STEP 3: Fill in the popup box as indicated below:

- **Set cell:** this is already selected from step 1. If not, click the field and select the cell containing the last/finish date.
- **To value:** enter the **target finish date** for the procurement.
- **By changing cell:** click the field and select the cell containing the **first/start date.**
- Click **OK**, and then click **OK** again on the following popup.

The timeline will be adjusted, with a new calculated start date.

- **Modifying the number of days in the timeline:** This can be done in two ways:
  - **Using the Time Estimation worksheet:** Modifying the approximate (Approx) number of days for specific processes (by procurement methods) within the Time Estimation worksheet. **Note:** this timeline applies to all items in the procurement worksheet using that method.
  - **Directly modifying planned dates** for a procurement item within the procurement plan worksheet. Note: modifying dates in the worksheets should be done from earliest to latest date, to ensure remaining dates are adjusted accordingly by the formulas.

Using the Time Estimation Sheet to modify timelines by procurement method

This spreadsheet provides estimated timelines by procurement methods, for each step of the procurement process based on experience and guidance in the Procurement Handbook where specified.

Goods & Works

Procurement Method	Bid Invitation Date			Bid Closing-Opening			
	Min	Max	Approx	Min	Max	Approx	Min
Single Envelope							
RFQ/Shopping (NS/IS)	1	3	1	5	21	14	0
NCB (no PreQual)	1	3	2	30	45	45	0
ICB (no PreQual)	1	3	2	45	70	45	0
LIB (no PreQual)	1	3	2	45	70	45	0
NCB (with PreQual)	1	3	2	30	45	45	0
ICB (with PreQual)	1	3	2	45	70	30	0
LIB (with PreQual)	1	3	2	45	70	45	0
Direct Contracting	1	3	1	7	30	14	0
Two Envelope							
NCB (no PreQual)	1	3	2	30	45	45	3
ICB (no PreQual)	1	3	2	45	70	45	3

ACTION: Identify the **Approx** cell value for the step in the process, and procurement method for which you wish to modify the timeline, and change the number of days.
Note: Cells will be highlighted for your attention if the value entered is below the Minimum number of days (as shown in this example).

Zero indicates steps that are not applicable to the method, and are indicated as *N/A* in the Formulas.

Directly modifying planned dates

ACTION: Simply enter new dates manually.
Note: Start editing from earliest to latest to ensure that the following dates are adjusted by the formulas.

Note: If you need to restore one or more planned date formulas, you can do so by copying and pasting the corresponding cell (in the same column) from the upper most row in the worksheet.

Plan				
Actual				

	EOI Shortlist Procedure			
Plan vs. Actual	Submission of REOI	No Objection Date	REOI Launch Date	EOI Submission Deadline
Plan	1-Feb-20	8-Feb-20	10-Feb-20	2-Mar-20

Entering Actual Dates and Information

AWPB/Component Ref	No	Description*	Funding	Project Area	Plan vs. Actual	Shortlist (Yes/No)	Prior or Post Review	Procurement Method	Amount (USD)	Amount (LCU)	Plan vs. Actual
RRB.CS.01	1	Climate Vulnerability Assessment	IFAD	All targeted districts	Plan	Yes	Prior Review	QCBS	64 000.00		Plan
				All targeted districts	Actual	Yes	Prior Review	QCBS	-	-	Actual

This cell contains a formula
Actual amounts can be entered at the end of the spreadsheet.

Submission of REOI	No Objection Date	REOI Launch Date	EOI Submission Deadline	Submission of Shortlist Report	No Objection Date
1-Feb-20	8-Feb-20	10-Feb-20	2-Mar-20	16-Mar-20	23-Mar-20
3-Feb-20	9-Feb-20	11-Feb-20	3-Mar-20	16-Mar-20	23-Mar-20

Note: Enter the Actual Amount at the end of the worksheet.

Date Contract Award	Date Contract Signature	Amount (USD)
24-Aug-20	31-Aug-20	64 000.00
30-Aug-20	10-Sep-20	60 000.00

ACTION: As the procurement processes are implemented, update the Actual Rows for the Basic Data, Actual Dates and finally, the Actual Amount at the end of the worksheet. **NEW!** Columns have been added for Contract No., **Vendor Name/ID, Contract Completion** and **Remarks**

	USD	LCU	
Total Amount	80 000.00	0.00	Plan
	65 000.00	0.00	Actual
Non-Consulting:	*30 000.00*	*0.00*	*Plan*
	20 000.00	*0.00*	*Actual*

Procurement Category	Plan		Actual	
Currency	USD	LCU	USD	LCU
Goods	50 000.00	-	45 000.00	-
Works	-	80 000.00	-	75 000.00
Consulting Services	15 000.00	-	10 000.00	-
Non-Consulting Services	30 000.00	-	20 000.00	-
TOTAL	95 000.00	80 000.00	75 000.00	75 000.00

NEW! Total values are included for Non-Consulting activities on each worksheet and in the summary worksheet.

Entering Actual Data and Information for Multiple LOTS

In cases of multiple LOTS, insert a new Actual Row for each LOT. The Actual Dates will likely be the same until the Submission of Technical Evaluation Report.

1								Plan	
								Actual	
3									
4	The 3 rows above are not part of the Plan and must not be modified. Copy these rows to create new procureme								

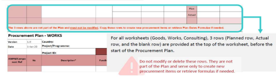
STEP 1: Select and **Copy** the **Actual** Row (Row 2) from the top section of the worksheet, and insert the copied row in your worksheet to create another Actual row as shown in the screenshot below.

STEP 2: In the Lot No./Description section of the Planned Row, indicate the number of LOTS in the Plan row, and individual lots in each Actual row. Fill in the information as shown in the example below.

Lot No/Description	Project Area	Plan vs. Actual	Pre-or Post Qualification	Prior or Post Review	Procurement Method	Envelopes	Amount (USD)
2 Lots	N/A	Plan	Post-Qual	Post Review	NS	1	25 000.00
1. Desktops	N/A	Actual	Post-Qual	Post Review	NS	1	15 000.00
2. Monitors	N/A	Actual	Post-Qual	Post Review	NS	1	10 000.00

NOTE: The Amount entered on the Plan row is the total amount for all the lots, while the amount entered in the Actual row reflects the amount for each lot.

Adding Rows for New Procurement Items



For all worksheets (Goods, Works, Consulting), 3 rows (Planned row, Actual row, and the blank row) are provided at the top of the worksheet, before the start of the Procurement Plan.

Do not modify or delete these rows. They are not part of the Plan and serve only to create new procurement items or retrieve formulas if needed.

To add rows for a new procurement item

1. **Scroll to the top of the worksheet and select the first 3 rows.**

   Quick tip: Hover the mouse over the first row number until you see a small black arrow, then click and drag down to the 3rd row.

2. **Copy the selected rows**

   Right click anywhere within the selected area and select **Copy** on the dropdown menu.
   OR press **CTRL + C** on the keyboard.

3. **Paste the rows at the end of the Plan**

   Select the first cell right underneath the last row in the worksheet, and press **CTRL + V**

4. Click **OK** on the following popup.

Things to Note

- Do not insert or delete a column in the **Time Estimation** worksheet;
- Users are advised against inserting or deleting columns in the worksheets for Goods, Works, Consulting. If this is necessary, please note that the automation will be lost and manual entry will be required;
- Do not copy rows and columns from other Plan worksheets to paste in a worksheet;
- Users of the Plan are advised not to change any of the formulas in the document, with the exception of changing dates (a copy of the formulas are provided at the top of every worksheet for new rows or inadvertent deletions).

Procurement Plan SUMMARY

Country:	Kenya			
Project Name:	Rural Kenya Financial Inclusion Facility (RK-FINFA)			
Project ID:				
Version	1.0			
Version Date	15-May-21			
Prepared by:	Nelson Oluoch			
Approved by:	n/a			
Procurement Activities	**Plan**		**Actual**	
Currency	**USD**	**LCU**	**USD**	**LCU**
Goods	96 500.00	-	-	-
Works	-	-	-	-
Consulting Services	50 000.00	-	-	-
Non-Consulting Services	9 000.00	-	-	-
TOTAL	**155 500.00**	**-**	**-**	**-**

Prior Review Thresholds

Thresholds	**Goods**	**Works**	**Firms - Consulting Services**	**Individuals - Consulting Services**
Prior Review	≥ US$ 70,000.00	≥ US$ 150,000.00	≥ US$ 60,000.00	≥ US$ 30,000.00

All Direct Contracting and Single-Source Procurements are ***Prior Review*** *(in alignment with IFAD Procurement Handbook), or based on the thresholds stipulated in the LTB*

The exchange rate at time of submission will be used for reviews.

Procurement Method Thresholds

	Shopping	**NCB**	**ICB**
Goods and goods-related Non-consulting services	< US$ 70,000.00	≥ US$ 70,000.00 to ≤ US$ 200000.00	> US$ 200,000.00
Works and works-related non-consulting services	< US$ 190,000.00	≥ US$ 190,000.00 to ≤ US$ 800,000.00	> US$ 800,000.00
	CQS	**QBS/LCS/FBS**	**QCBS**
Consulting services and related non-consulting services	< US$ 70,000.00	≥ US$ 70,000.00 to ≤ US$ 100,000.00	> US$ 100,000.00

Procurement Plan - Goods

Kenya

Rural Kenya Financial Inclusion Facility (RK-FINFA)

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Procurement Methods
NS: National Shopping
IS: International Shopping
NCB: National Competitive Bidding
ICB: International Competitive Bidding
LIB: Limited (International) Bidding
DC: Direct Contracting

	USD	LCU	
Total Amount	**105 500.00**	**0.00**	Plan
	0.00	**0.00**	Actual
Non-Consulting:	*9 000.00*	*0.00*	*Plan*
	0.00	*0.00*	*Actual*

Version 1.0 15-May-21			Basic Data										
AWPB/Component Ref	№	Description	Non Consulting	Funding	Lot №/Description	Project Area or Procuring Entity	Plan vs. Actual	Pre-or Post Qualification	Prior or Post Review	Procurement Method	Envelopes	Amount (USD)	Amount (LCU)
3.2.1.1	1	4x4 vehicles (2)		IFAD, GoK		PMU	Plan	Post-Qual	Prior Review	**NS**	1	70 000.00	
							Actual					-	-
3.2.1.2	2	Motor Vehicle Maintenance	Yes	GoK		PMU	Plan	Post-Qual	Post Review	**NS**	1	9 000.00	
			Yes				Actual					-	-
3.2.1.3	3	Office Equipment and Furniture		IFAD, GoK		PMU	Plan	Post-Qual	Post Review	**NS**	1	10 000.00	
							Actual					-	-
3.2.1.6	4	Laptops		IFAD		PMU	Plan	Post-Qual	Post Review	**NS**	1	12 000.00	
							Actual					-	-
3.2.1.7	5	Mobile Phones		GoK		PMU	Plan	Post-Qual	Post Review	**NS**	1	4 500.00	
							Actual					-	-

№		Pre-Qualification						Bidding Process				Bid Evaluation					Co		
	Plan vs. Actual	Submission of PreQual Docs	No Objection Date	PreQual Invitation Date	PreQual Closing Date	Submission of PreQual Report	No Objection Date	Submission of BD	No-objection Date	Bid Invitation Date	Bid Closing-Opening	Submission Tech Eval Rpt	No-objection Date	Submission Combined Eval Rpt*	No-objection Date	Plan vs. Actual	Issue of NOITA&Standstill	Date Contract Award	Date Contract Signature
1	Plan	N/A	N/A	N/A	N/A	N/A	N/A	1-Jan-22	8-Jan-22	9-Jan-22	23-Jan-22	N/A	N/A	30-Jan-22	6-Feb-22	Plan	6-Feb-22	8-Feb-22	10-Feb-22
	Actual															Actual			
2	Plan	N/A	N/A	N/A	N/A	N/A	N/A	1-Feb-22	N/A	2-Feb-22	16-Feb-22	N/A	N/A	23-Feb-22	N/A	Plan	23-Feb-22	25-Feb-22	27-Feb-22
	Actual															Actual			
3	Plan	N/A	N/A	N/A	N/A	N/A	N/A	1-Jan-22	N/A	2-Jan-22	16-Jan-22	N/A	N/A	23-Jan-22	N/A	Plan	23-Jan-22	25-Jan-22	27-Jan-22
	Actual															Actual			
4	Plan	N/A	N/A	N/A	N/A	N/A	N/A	1-Jan-22	N/A	2-Jan-22	16-Jan-22	N/A	N/A	23-Jan-22	N/A	Plan	23-Jan-22	25-Jan-22	27-Jan-22
	Actual															Actual			
5	Plan	N/A	N/A	N/A	N/A	N/A	N/A	1-Jan-22	N/A	2-Jan-22	16-Jan-22	N/A	N/A	23-Jan-22	N/A	Plan	23-Jan-22	25-Jan-22	27-Jan-22
	Actual															Actual			

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FINFA)

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Version 1.0 15-May-21			Basic Data					
AWPB/Component Ref	**№**	**Description***	**Non Consulting**	**Funding**	**Project Area or Procuring Entity**	**Plan vs. Actual**	**Shortlist (Yes|No)**	**Prior or Post Review**
3.2.2.2	1	Baseline		IFAD	PMU	Plan	Yes	Post Review
						Actual		

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FIN

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

	USD	LCU	
Total Amount	**50 000.00**	**0.00**	Plan
	0.00	**0.00**	Actual
Non-Consulting:	*0.00*	*0.00*	*Plan*
	0.00	*0.00*	*Actual*

Version 1.0 15-May-21

AWPB/Component Ref	№	Description*	Procurement Method	Amount (USD)	Amount (LCU)	Plan vs. Actual	Submission of REOI	No Objection Date
3.2.2.2	1	Baseline	QCBS	50 000.00		Plan	21-Jan-22	N/A
				-	-	Actual		

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FIN

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Version 1.0 15-May-21			EOI Shortlist Procedure				Proposa	
AWPB/Component Ref	№	Description*	REOI Launch Date	EOI Submission Deadline	Submission of Shortlist Report	No Objection Date	Submission of RFP/RCQ	No-objection Date
3.2.2.2	1	Baseline	23-Jan-22	6-Feb-22	20-Feb-22	N/A	24-Feb-22	N/A

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FIN

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Version 1.0 15-May-21			Process		Evaluation			
AWPB/Component Ref	№	Description*	RFP/RCQ Launch Date	Proposal submission deadline	Submission of TER	No-objection Date	Submission of CER	No-objection Date
3.2.2.2	1	Baseline	26-Feb-22	12-Apr-22	26-Apr-22	N/A	10-May-22	N/A

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FIN

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Selection Methods
QCBS: Quality and Cost-Based Selection
QBS: Quality-Based Selection
CQS: Selection by Consultants' Qualifications (shortl
LCS: Least-Cost Selection
FBS Fixed Budget Selection
ICS: Individual Consultants Selection
SSS: Sole Source Selection

Version 1.0 15-May-21				Co				
AWPB/Component Ref	№	Description*	Plan vs. Actual	Issue of NOITA&Standstill	Negotiations completed	Submission of Draft Contract and MoN	No-objection Date	Date Contract Award
3.2.2.2	1	Baseline	Plan	22-May-22	12-Jun-22	16-Jun-22	N/A	18-Jun-22
			Actual					

Procurement Plan - Consulting

Kenya

Rural Kenya Financial Inclusion Facility (RK-FINist is required for t

Project ID:

Prepared by: Nelson Oluoch

Approved by: n/a

Version 1.0 15-May-21			ntract Award & Sig
AWPB/Component Ref	**№**	**Description***	**Date Contract Signature**
3.2.2.2	1	Baseline	25-Jun-22

Day Ranges *These tables provide estimated timelines by procurement methods, based on experience and guidance in the Procurement Handbook where specified.*
The approximate number of days are used in the default Procurement Plan Formulas. Timelines in the Approx fields/Formulas ***are not prescriptive, and may be modified by the project.***
Approx figures entered will be highlighted/flagged, if below the Minimun number of days. Zero indicates steps that are not applicable to the method, and are indicated as N/A in the Formulas.

Goods & Works

Procurement Method	Submission of PreQual docs			No Objection Date			PreQual Invitation Date			PreQual Closing Date			Submission of PreQual Report			No Objection Date			Submission of BD			No-objection Date			Bid Invitation Date			Bid Closing-Opening			Submission Tech Eval Rpt			No-objection Date			Submission Combined Eval Rpt/Bid Evaluation Report			No-objection Date			Issue of NOITA & Standstill			Date Contract Award			Date Contract Signature			Totals			
	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Approx Months/Days
Single Envelope																																																							
RFQ/Shopping (NS/IS)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	N/A-Start Date	7	10	7	1	3	1	5	21	14	0	0	0	0	0	0	1	7	7	7	10	7	0	0	0	1	3	2	1	3	2	24	60	40	1m 9d
NCB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	30	45	45	0	0	0	0	0	0	3	21	14	7	10	7	11	15	12	7	14	7	1	5	2	68	130	96	3m 5d
ICB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	45	70	45	0	0	0	0	0	0	3	21	21	7	10	7	11	15	12	7	14	7	1	5	2	83	155	103	3m 12d
LIB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	45	70	45	0	0	0	0	0	0	3	21	21	7	10	7	11	15	12	7	14	7	1	5	2	83	155	103	3m 12d
NCB (with PreQual)	1	4	N/A-Start Date	7	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	3	2	30	45	45	0	0	0	0	0	0	7	21	14	7	10	7	11	15	12	1	5	5	1	5	2	110	206	164	5m 12d
ICB (with PreQual)	1	4	N/A-Start Date	7	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	3	2	45	70	45	0	0	0	0	0	0	7	21	21	7	10	7	11	15	12	1	5	5	1	5	2	125	231	171	5m 19d
LIB (with PreQual)	1	4	N/A-Start Date	5	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	3	2	45	70	45	0	0	0	0	0	0	7	21	21	7	10	7	11	15	12	1	5	5	1	5	2	123	231	171	5m 19d
Direct Contracting	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	N/A-Start Date	7	10	7	1	3	1	7	30	14	0	0	0	0	0	0	3	21	7	7	10	7	0	0	0	7	14	7	1	5	2	34	96	45	1m 14d
Two Envelope																																																							
NCB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	30	45	45	3	21	3	7	10	7	3	7	7	7	10	7	11	15	12	7	14	7	1	5	2	78	147	99	3m 8d
ICB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	45	70	45	3	21	21	7	10	7	3	7	7	7	10	7	11	15	12	7	14	7	1	5	2	93	172	117	3m 26d
LIB (no PreQual)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A-Start Date	7	10	7	1	3	2	45	70	45	3	21	21	7	10	7	3	7	7	7	10	7	11	15	12	7	14	7	1	5	2	93	172	117	3m 26d
NCB (with PreQual)	1	4	N/A-Start Date	7	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	3	2	30	45	45	7	21	14	7	10	7	3	7	7	7	10	7	11	15	12	1	5	5	1	5	2	120	223	178	5m 26d
ICB (with PreQual)	1	4	N/A-Start Date	7	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	2	2	45	70	45	7	21	21	7	10	7	3	7	7	7	10	7	11	15	12	1	5	5	1	5	2	135	247	180	5m 9d
LIB (with PreQual)	1	4	N/A-Start Date	7	10	7	1	3	2	14	30	30	14	21	14	7	10	7	1	14	10	7	10	7	1	2	2	45	70	45	7	21	21	7	10	7	3	7	7	7	10	7	11	15	12	1	5	5	1	5	2	135	247	180	5m 9d

Services

Selection Method	Submission of REOI			No Objection Date			REOI Launch Date			EOI Submission Deadline			Submission of Shortlist Report			No Objection Date			Submission of RFP/RCQ			No-objection Date			RFP/RCQ Launch Date			Proposal submission deadline			Submission of TER			No-objection Date			Submission of CER			No-objection Date			Issue of NOITA & Standstill			Negotiations completed			Submission of Draft Contract and MoM			No-objection Date			Date Contract Award			Date Contract Signature			Totals			
	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Min	Max	Approx	Approx Months/Days
QCBS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	14	14	21	14	7	10	7	1	7	4	7	10	7	1	3	2	45	60	45	14	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	170	283	197	6m 15d
FBS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	1	7	4	7	10	7	1	3	2	45	60	45	14	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	170	283	204	6m 22d
LCS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	1	7	4	7	10	7	1	3	2	45	60	45	14	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	170	283	204	6m 22d
QBS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	1	7	4	7	10	7	1	3	2	21	60	45	14	21	14	7	10	7	0	0	0	0	0	0	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	132	259	183	6m 1d
CQS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	1	5	4	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	0	0	0	0	0	0	11	15	12	7	14	14	3	14	4	7	10	7	1	3	2	1	7	7	118	220	152	4m 31d
ICS (w/Shortlist)	1	4	N/A- Start Date	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	1	5	4	7	10	7	1	3	2	14	30	21	14	21	14	7	10	7	0	0	0	0	0	0	11	15	12	7	14	14	3	14	4	7	10	7	1	3	2	1	7	7	118	220	152	4m 31d
QCBS (noShortlist)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A- Start Date	7	10	7	1	3	2	45	60	45	14	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	126	205	149	4m 26d
FBS (noShortlist)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	5	N/A- Start Date	7	10	7	1	3	2	14	30	21	7	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	88	173	125	4m 4d
LCS (noShortlist)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A- Start Date	7	10	7	1	3	2	21	30	25	7	21	14	7	10	7	7	14	14	7	10	7	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	95	175	129	4m 8d
QBS (noShortlist)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A- Start Date	7	10	7	1	3	2	21	60	45	14	21	14	7	10	7	0	0	0	0	0	0	11	15	12	14	21	21	3	14	4	7	10	7	1	3	2	1	7	7	88	181	128	4m 7d
SSS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	7	N/A- Start Date	7	10	7	1	3	2	7	30	30	0	0	0	0	0	0	7	21	14	7	10	7	0	0	0	7	21	21	3	14	4	7	10	7	1	3	2	1	7	7	49	136	101	3m 10d

NOTE
1. Some procurement methods for low-value processes might require No Objections based on the Prior Review Thresholds. Where they do not require, No Objection number of days should be zero.
2. **RFP**: Request for Proposals: standard procurement document used for Services.
3. **RCQ**: Requests for Consultants Qualifications: Procurement document used for CQS and LCS. The RFP is used for all other procurement methods
4. Consulting services and Good/Works methods could either be used for Non-Consulting Services
5. All days are calendar days

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 8: Project Implementation Manual (PIM)

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

RURAL KENYA FINANCIAL INCLUSION FACILITY

(RK-FINFA)

PROJECT IMPLEMENTATION MANUAL

TABLE OF CONTENTS

PROJECT PURPOSE, OPERATIONAL AREA AND TARGETING

RK-FINFA Rationale, Objectives and Structure

Rationale. The main rationale for investment in RK-FINFA derives from the core development objectives that IFAD and the GoK share on rural and agricultural development in Kenya. The Government's strategy to improve agricultural performance and productivity as expressed ASTGS 2019-2029 aims at (i) increasing small-scale farmer, pastoralist, and fisher incomes; (ii) increasing agricultural output and value addition; and (iii) boosting household food resilience. These goals would be achieved particularly through (i) a substantially increased private sector focus in the development and investments of the sector; and (ii) improvements in the productivity of smallholder operations through modern cultivation methods and climate smart technologies, linking farmers to well-operating value chains and building farmer capacity to increase their readiness for innovation and diversification. IFAD's COSOP 2020-2025 is largely built on these same premises to develop the rural and agricultural sector in Kenya.

In both the GoK and IFAD visions, to develop the rural sector successfully and in a sustainable manner, private sector financial institutions (particularly commercial banks, SACCOs and MFIs) would need to play a central role in the financing of the rural transformation process. Development funding would be used to pro-actively stimulate the interest of the FIs to expand the volumes and outreach of their agricultural and rural operations. The proposed RK-FINFA would be one of the instruments aiming to ensure that appropriate and adequate financial services would be available for the planned transformation and growth of the rural economy in Kenya. In the wake of COVID-19, the need for this strategic development support is even greater, to initially improve the chances of fast rural recovery and then later boost the sustained growth of the sector. At the same time, to respond to Government's and IFAD's agendas on climate change adaptation/mitigation and improve environmental management and efficiencies in the use of natural resources, RK-FINFA would pro-active encourage the mainstreaming of green finance activities when sustainably transforming the rural sector in Kenya.

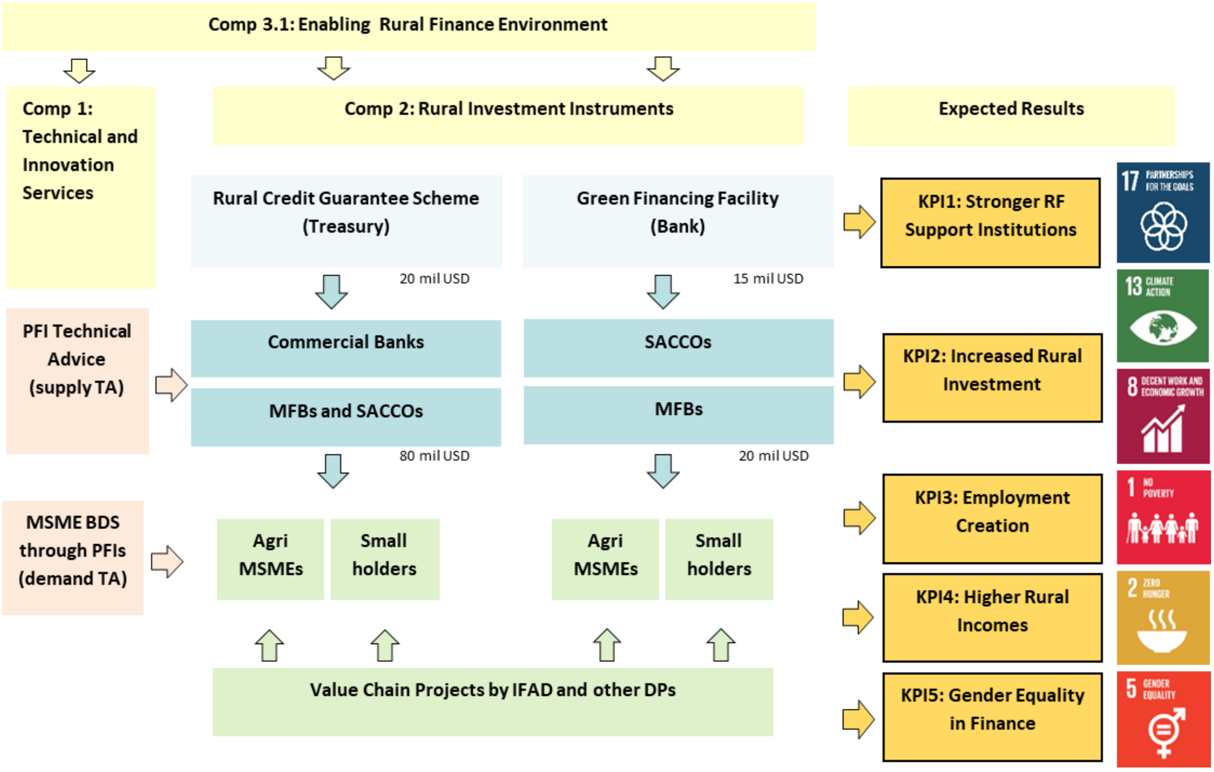
IFAD is strongly positioned to provide solutions to the obstacles for rural finance market development in Kenya, due to its: (i) long experience in supporting Kenya's rural finance sector; (ii) strong global capacity of acting as a broker between the financial sector operators, smallholder farmers and companies in the rural value chains; (iii) track record in supporting the development of innovative financial instruments; and (iv) growing experience with green financing with innovative technological solutions, targeted at smallholder farmers and agricultural value chains. In addition, RK-FINFA would work closely with the participating households of the four on-going IFAD-supported value chain programmes (KeLCoP, ABDP, UTaNRMP and KCEP-CRAL), with the aim of effectively connecting the farmers trained by these projects to the financial institutions and the financial services supported by RK-FINFA.

Following IFAD's current overall approach, RK-FINFA is designed based on a longer-term programming approach and the development of financing facilities that can operate on a sustained basis, beyond the duration of the planned project period. If the RK-FINFA strategies and implementation approaches prove successful, they can provide an appropriate framework for the interventions when designing future IFAD-supported operations in Kenya. Furthermore, the two key investment instruments of the project (the Rural Credit Guarantee Scheme and the Green Financing Facility) are designed basically as long-term support facilities into which international and bilateral development partners sharing the same strategic views can invest without spending additional funds on design, implementation, and management costs. Based on experience in other countries, this feature can significantly increase the returns justifiable to add to the direct returns from the now proposed, original RK-FINFA investment.

Objectives. The project goal of the proposed RK-FINFA is: "*poverty reduction, climate change resilient and improved livelihoods in rural areas*". The Project Development Objective (PDO) of RK-FINFA is: "*increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth*".

Overall RK-FINFA Structure. To achieve the RK-FINFA Project Goal and Development Objective, the project activities are structured into three mutually reinforcing components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination. The TSIS operations of the first component will start with each PFI, prior to allocation of investment resources through the second component. Diagram 1 presents the overall structure, the relationship between the different activities and stakeholders and the expected results.

Diagram 1: RK-FINFA Technical Components and Expected Results



A. RK-FINFA Operational Area and Targeting Approach

Geographic area of intervention

The geographic coverage of RK-FINFA, once fully operational, will be nationwide. However, for an effective project start-up, the geographic targeting will operate in two phases. First, the entry point for the RK-FINFA outreach will be the 14 counties in which at least two IFAD-supported projects operate with agricultural value chains. These counties are:

- Bungoma
- Busia
- Embu

- Kakamega
- Kirinyaga
- Kisii
- Machakos
- Meru
- Nakuru
- Nandi
- Nyeri
- Siaya
- Tharaka Nithi
- Trans-Nzoia.

The RK-FINFA capacity building will start in these counties (see below Component 1), and the first round of investment instrument roll out (see below Component 2) will take place in this target area. With this approach, RK-FINFA and its Participating Financial Institutions (PFIs) will benefit from synergies with earlier IFAD-supported value chain development activities, and the financing can be focused on diversified value chains.

Second, after the RK-FINFA capacity building and initial financing cycle, the PFIs can expand their targeted area of investments with RK-FINFA resources to any rural county in Kenya. The PFIs will identify these expansion areas based on their market opportunities and capabilities while continuing to apply the agreed targeting principles of the project.

For the 14 counties selected as initial area for RK-FINFA implementation, detailed data is presented in tables below. Table 1 shows the IFAD-supported VC projects in each county, with the targeted key crops. Table 2 present a detailed list of the key agricultural values chains in these counties. Table 3 provides the demographic details on initial RK-FINFA target counties. Table 4 shows the presence of farmer-based DT-SACCOs and MFBs in the initial RK-FINFA target counties. Table 5 provides data on the distribution of land in the 14 counties. In addition, Appendix 2 to this PIM provides a comprehensive mapping of the financial systems and institutions that serve the rural finance clientele targeted by the RK-FINFA interventions.

Table 1: Counties Targeted and IFAD-supported VC Projects

No.	Region	County	IFAD- Supported VC Projects	Value Chains
1	EASTERN	Embu	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Upper Tana Natural Resource Management Project (UTaNRMP)	This is a Natural Resource Management Project, not a Value Chain Project. However, it has income earning activities through which beneficiaries produce cow and goat milk, poultry, fish, and horticulture crops.
2		Mackakos	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Aquaculture Business Development programme (ABDP)	Fish
3		Meru	(1) Upper Tana Natural Resource Management Project (UTaNRMP)	This is a Natural Resource Management Project, not a Value Chain Project. However, it has income earning activities through which beneficiaries produce cow and goat milk, poultry, fish, and horticulture crops.
			(2) Aquaculture Business Development programme (ABDP)	Fish
4		Tharaka Nithi	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Upper Tana Natural Resource Management Project (UTaNRMP)	This is a Natural Resource Management Project, not a Value Chain Project. However, it has income earning activities through which beneficiaries produce cow and goat milk, poultry, fish, and horticulture crops.
			(3) Aquaculture Business Development programme (ABDP)	Fish

5	CENTRAL	Kirinyaga	(1) Upper Tana Natural Resource Management Project (UTaNRMP),	This is a Natural Resource Management Project, not a Value Chain Project. However, it has income earning activities through which beneficiaries produce cow and goat milk, poultry, fish, and horticulture crops.
			(2) Aquaculture Business Development programme (ABDP)	Fish
6		Nyeri	(1) Upper Tana Natural Resource Management Project (UTaNRMP)	This is a Natural Resource Management Project, not a Value Chain Project. However, it has income earning activities through which beneficiaries produce cow and goat milk, poultry, fish, and horticulture crops.
			(2) Aquaculture Business Development programme (ABDP)	Fish
7	RIFT VALLEY	Nakuru	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey
			(3) Smallholder Dairy Commercialization Project (SCDP)	Cow and goat milk
8		Nandi	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Smallholder Dairy Commercialization Project (SCDP)	Cow and goat milk
9		Trans Nzoia	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey
			(3) Smallholder Dairy Commercialization Project (SCDP)	Cow and goat milk
10	WESTERN	Bungoma	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey

			(3) Smallholder Dairy Commercialization Project (SCDP)	Cow and goat milk
11		Busia	(1) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey
			(2) Aquaculture Business Development programme (ABDP)	Fish
12		Kakamega	(1) Kenya Cereals Enhancement Programme- Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL)	Maize, sorghum, millet, pulses
			(2) Aquaculture Business Development programme (ABDP)	Fish
			(3) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey
			(4) Smallholder Dairy Commercialization Project (SCDP	Cow and goat milk
13	NYANZA	Kisii	(1) Aquaculture Business Development programme (ABDP)	Fish
			(2) Smallholder Dairy Commercialization Project (SCDP)	Cow and goat milk
14		Siaya	(1) Aquaculture Business Development programme (ABDP)	Fish
			(2) Kenya Livestock Commercialization Project (KELCOP)	Livestock: Sheep and Goats meat, goat milk, poultry, honey

Table 2: Main Agricultural Value Chains by Target Counties

No.	County	Crops
1	Bungoma	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, wheat, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
2	Busia	Maize, sorghum, millet, rice, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
3	Embu	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, camels, donkeys, pigs, chicken, beehives, rabbits, fish.
4	Kakamega	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
5	Kirinyaga	Maize, sorghum, millet, rice, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, watermelon, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
6	Kisii	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
7	Mackakos	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, watermelon, sugarcane, dairy cattle, beef cattle, sheep, goats, camels, donkeys, pigs, chicken, beehives, rabbits, fish.
8	Meru	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, wheat, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, camels, donkeys, pigs, chicken, beehives, rabbits, fish.
9	Nakuru	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, wheat, green grams, bananas, vegetables, sugarcane, dairy cattle, beef cattle, sheep, goats, camels, donkeys, pigs, chicken, beehives, rabbits, fish.
10	Nandi	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, wheat, bananas, vegetables, groundnuts, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
11	Nyeri	Maize, sorghum, potatoes, beans, cassava, sweet potatoes, wheat, green grams, bananas, vegetables, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
12	Siaya	Maize, sorghum, millet, rice, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts,

		watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.
13	Tharaka Nithi	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, green grams, bananas, vegetables, groundnuts, watermelon, sugarcane, cotton, dairy cattle, beef cattle, sheep, goats, camels, donkeys, pigs, chicken, beehives, rabbits, fish.
14	Trans Nzoia	Maize, sorghum, millet, potatoes, beans, cassava, sweet potatoes, wheat, green grams, bananas, vegetables, groundnuts, sugarcane, dairy cattle, beef cattle, sheep, goats, donkeys, pigs, chicken, beehives, rabbits, fish.

Table 3: Demographic details on initial RK-FINFA target counties1

No.	County	Population	Number of Households	Household Size	Land Area (Sq. Km)	Population Density	Poverty Index (%)	Percentage2 Rural Population	Rural Population	Rural Youth Population	% Youth to Rural Population
	Kenya	**47,564,296**	**12,143,913**	**3.9**	**580,876**	**82**	**45.2**	**72.0**	**34,246,293**		
	Counties										
1	Bungoma	1,670,570	358,796	4.6	3,024	552	47.3	88.6	1,480,125	508,873	34.4
2	Busia	893,681	198,152	4.5	1,696	527	60.4	87.3	780,184	270,310	34.6
3	Embu	608,599	182,743	3.3	2,821	216	35.3	87.5	532,524	183,966	34.5
4	Kakamega	1,867,579	433,207	4.3	3,020	618	49.2	90.1	1,682,689	562,951	33.5
5	Kirinyaga	610,411	204,188	3.0	1,478	413	25.2	77.7	474,289	154,258	32.5
6	Kisii	1,266,860	308,054	4.1	1,323	958	51.4	88.0	1,114,837	385,983	34.6
7	Machakos	1,421,932	402,466	3.5	6,043	235	24.1	70.9	1,008,150	341,565	33.9
8	Meru	1,545,714	426,360	3.6	7,006	221	31.0	91.0	1,406,600	496,628	35.3
9	Nakuru	2,162,202	616,046	3.5	7,462	290	33.5	51.6	1,115,696	415,829	37.3
10	Nandi	885,711	199,426	4.4	2,856	310	40.7	93.3	826,368	306,008	37.0
11	Nyeri	759,164	248,050	3.0	3,325	228	27.6	80.1	608,090	184,772	30.4
12	Siaya	993,183	250,698	3.9	2,530	393	38.2	91.4	907,769	302,968	33.4
13	Tharaka Nithi	393,177	109,860	3.6	2,564	153	41.0	91.7	360,543	121,531	33.7
14	Trans Nzoia	990,341	223,808	4.4	2,495	397	52.8	82.0	812,080	279,758	34.4

1 Kenya 2019 Population Census
2 https:www.citypopulation.de/en/Kenya/admin/eastern/16_embu (“the county”) – 2019

Table 4: Agricultural DT-SACCOs and MFBs Present in 14 Initial Target Counties

No	County	Banks	MFBs	DT-Saccos	Key AVCs into Which the FIs Lend
1	Bungoma	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo	Ngarisha	
2	Busia	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Faridi	
3	Embu	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	County Daima Mwietheri Nawiri	Coffee, tea, dairy, horticulture
4	Kakamega	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Invest and Grow	
5	Kirinyaga	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Bingwa Fortune Lainisha	Coffee, tea, dairy, horticulture, rice
6	Kisii	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT SMEP Juhudi Kilimo*	Kenya Achievas Nyamira Tea Vision Point Wakenya Pamoja	Coffee, tea, dairy, horticulture, bananas
7	Machakos	ABSA Bank Co-operative Bank of Kenya Equity Bank	KWFT FAULU	Universal Traders	Cereals, pulses, dairy, horticulture

		Kenya Commercial Bank National Bank of Kenya	SMEP Rafiki Juhudi Kilimo*		
8	Meru	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Capital Dhabiti Golden Pilla Nexus Nyambene Arimi Smart Champion Southern Star Thamani Yetu	Coffee, tea, dairy, horticulture,
9	Nakuru	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Rafiki Juhudi Kilimo*	Skyline	dairy, horticulture, cereals
10	Nandi	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT Juhudi Kilimo*	Kolenge Nandi Farmers The Apple	tea, dairy, horticulture, cereals
11	Nyeri	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Enea Taifa Wananchi Wakulima Commercial	Coffee, tea, dairy, horticulture,
12	Siaya	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT FAULU SMEP Juhudi Kilimo*	Taragi	
13	Tharaka-Nithi	ABSA Bank Co-operative Bank of Kenya Equity Bank	KWFT	Trans Nation	Pulses, tea, dairy, horticulture

		Kenya Commercial Bank National Bank of Kenya			
14	Trans Nzoia	ABSA Bank Co-operative Bank of Kenya Equity Bank Kenya Commercial Bank National Bank of Kenya	KWFT SMEP Juhudi Kilimo*	Trans Counties	dairy, cereals

Notes: (a)The 49 farmer-based DT-saccos have no presence in four of the 14 counties – Bungoma, Busia, Kakamega and Siaya; (b) included are 2 non-DT MFIs (Credit-only), which are very strong in the agriculture and rural space and have many branches in the target counties (Juhudi Kilimo and ECLOF Kenya).

Table 5: Distribution of Agriculture Land (Hectares) and Farming Household by Purpose and by County

No	County	Areas of Agriculture Land (Ha)	Area of Agriculture Land by Main Purpose		Total Number of Farming Households	No. of Households by Main Purpose of Agriculture Production	
			Subsistence	Commercial		Subsistence	Commercial
1	Bungoma	223,269	202,494	19,091	280,445	264,247	12,829
2	Busia	116,705	111,661	4,232	148,257	143,486	2,892
3	Embu	122,114	105,151	16,259	130,990	113,678	15,671
4	Kakamega	219,776	201,093	13,125	335,269	322,193	9,778
5	Kirinyaga	80,166	52,890	26,670	139,866	96,666	41,035
6	Kisii	165,068	154,291	9,494	219,853	210,045	7,981
7	Machakos	268694	248,201	17,610	231,341	220,575	8,203
8	Meru	361,272	310,827	45,753	274,865	238,707	30,109
9	Nakuru	357,968	270,779	83,022	283,652	241,174	37,725
10	Nandi	211,761	164,111	46,718	148,887	134,498	13,136
11	Nyeri	98,512	81,690	16,107	164,229	140,838	21,590
12	Siaya	137,462	131,706	4,581	194,362	188,253	3,750
13	Tharaka Nithi	147,710	134,102	12,281	85,767	78,456	6,073
14	Trans Nzoia	154,167	105,145	47,750	140,249	21,815	15,884

The ongoing (or just closed) IFAD-supported value chain projects that RK-FINFA will initially be anchored on are: (i) Kenya Livestock Commercialization Project (KELCOP); (ii) Aquaculture Business Development Programme (ABDP); (iii) Kenya Cereals Enhancement Programme - Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL); (iv) Upper Tana Natural Resources Management Project (UTaNRMP); and (v) the recently closed Smallholder Dairy Commercialization Programme (SDCP). These projects had already carried out poverty analysis in selecting their beneficiaries in order to develop pro-poor value chains, and also complement projects financed by other partners. They are implementing activities to train beneficiaries in production, financial literacy and business development and management, and graduating the smallholders to access finance. These beneficiaries will provide a ready pipeline for the RK-FINFA with diversified value chains.

The population in these counties is largely rural, ranging from 51.6 percent of the total population for Nakuru county to 93.3 percent for Nandi County, with an average of 83.6 percent for the 14 counties. Except for Nakuru, all other target counties are above 70 percent rural. They rely mainly on mixed farming (growing rainfed crops while keeping livestock animals including poultry and bees and to a small extent rearing fish). Poverty levels are moderate as they range from 24.1 percent for Machakos to 60.4 percent for Busia, but there are deep pockets of very high poverty in each of these counties. Population density also varies among the target counties which ranges from 153 in Tharaka Nithi to 958 in Kisii (the National Population Density is 82)3. High population density is a major cause of landlessness, food shortages and food insecurity as the available land is split to very small uneconomical plots among families. As regards environmental vulnerability, the target area exhibits limited vulnerability to climate induced hazards, mainly floods and drought[4].

According to the County Integrated Development Plans (CIDPs), each county has a number of MSMEs, dealing with agro-based value addition or and other non-agro-based activities. However, the statistical base is weak and micro-firms are not effectively listed by their type or size. Some countries do not have statistics on operational MSMEs although large numbers of them operate in these rural areas, most of them unlicensed.

RK-FINFA Projected Outreach

Based on projection made during the project design, the project will benefit 190,000 rural Kenyan households, including both direct and indirect clients. This includes direct financial and technical services to 68,000 households/MSMEs, covering: (i) an estimated 66,000 economically active smallholder households; and (ii) 2,000 rural MSMEs engaged in smallholder-inclusive VCs. Considering the average household size of 4.7 persons in rural Kenya, this corresponds to 319,600 total household members. In addition, the project will engage with estimated five commercial banks, five MFBs and 30 SACCOs, which are not included in the estimated number of programme beneficiaries. In addition, the indirect outreach of the project includes: (i) estimated 32,000 persons through employment in the RK-FINFA supported agribusinesses and farms; and (ii) 90,000 smallholder households through participation in the VCs strengthened by the supported agribusinesses.

Targeting Strategy and Beneficiary Profiles

The overall RK-FINFA targeting strategy is based on the beneficiary profiles used by the on-going IFAD-supported value chain projects. The focus is on low-income, economically active rural households, with specific targets on women and youth participation in both capacity building and financing activities. The PIM of RK-FINFA includes comprehensive strategies for gender and youth targeting, as well as nutrition linkages of RK-FINFA. Environmental and climate change-related objectives will be integral parts of the project’s general strategy and were among the key factors influencing the selection of the RK-FINFA investment instruments. The RK-FINFA beneficiary profiles include:

3 2019 Kenya Population and Housing Census.
4 Climate Change Vulnerability and Impact Analysis in Kenya, Samuel N. Marigi, American Journal of Climate Change, 2017

- ***Smallholders[5] and rural microenterprises[6]*** in the project target areas with limited access to financial services and products due to lack of adequate business skills, limited access to markets and lack of collateral assets. This category of beneficiaries represents about 90 per cent of the total number of beneficiaries, and will include 50 per cent women and 30 per cent youth. The RK-FINFA micro- and small financing packages are appropriate to this project core target group, including the green finance products to increase climate change resilience.
- ***Under-employed rural men, women and youth*** with no access to land or assets beyond their skills and time. The project will support them to seek employment in the VCs as seasonal workers in the farms and full time workers in the supported SMEs including service providers, input material suppliers, processers, logistics and sales. This group represents about 10 per cent of RK-FINFA beneficiaries.
- ***Agribusiness-SMEs[7]*** that have viable market-oriented business models with potential to create jobs and opportunities for smallholders.[8] Due to risks inherent in the agriculture sector, as well as insufficient business planning capacities, they have limited access to finance to expand their operations and employment creation in the VCs. All RK-FINFA supported SMEs are involved in and promote smallholder-inclusive value chains and provide employment in the RK-FINFA's targeted rural areas.

RK-FINFA Social Inclusion Strategy

Proper targeting of programme beneficiaries will ensure that the RK-FINFA investments promote inclusive and sustainable rural transformation while reducing poverty and food insecurity. Targeting requires an analysis of the rural poverty situation that includes a socio-economic assessment of the target group's livelihoods and opportunities so that the Programme interventions can address identified challenges and be tailored according to the country's goals and community priorities as well as the 'leaving no one behind' principle. Financial inclusion refers to the process by which individuals and businesses can access appropriate, affordable, and timely financial products and services through banking or other financial intermediaries. Financial inclusion efforts typically target those who are unbanked and underbanked and directs sustainable financial services to them beyond merely opening a bank account. Inclusive financial systems have been linked to stronger and more sustainable economic growth and development, and achieving financial inclusion is a priority for Kenya.

To ensure effective social targeting, the RK-FINFA strategy will apply a combination of targeting mechanisms and measures:

a. **Poverty and community based targeting** Participatory social mapping and wealth-ranking using PRA/PLA tools during start up and in the early stage of implementation will ensure to: (i) disaggregate the communities along the poverty axis and the social axis while also considering local perceptions of these factors; (ii) identify benchmarks against which to determine how the different groups will be targeted in the project activities; and (iii) ensure targeted project interventions on offer in line with the targeted population's interests and livelihoods. Targeting will also be validated through all key stakeholders including ongoing IFAD project teams, community leaders, local administration, County governments, relevant Government Ministries and Directorates of Gender and Youth.

b. **Direct targeting** mechanisms will ensure the identification of key beneficiaries, based on set criteria and validation, participation of 50 per cent women, 30 per cent youth, and 5 per cent PWDs, vulnerable groups, including female and youth headed households. RK-FINFA will ensure project interventions are inclusive and seek support to address gender and age

5 For RK-FINFA the definition of "Smallholder" is based on the criteria: (i) engaged in agriculture activity, (ii) main household income from agriculture activity, (iii) majority of agriculture work carried out by family members, (iv) the RK-FINFA supported "small loans" and "microloans" are appropriate for the household agriculture investments.
6 According to GoK definition, a microenterprise has 1-9 employees and up to KES 500,000 (about US$ 5,000) annual turnover.
7 According to GoK definition, a small enterprise has 10-49 employees and up to KES 5,000,000 annual turnover, and a medium enterprise has 50-250 employees and up to KES 100,000,000 annual turnover.
8 Profiles of 150 agribusinesses have been collected by the predecessor Kenya RF project PROFIT. These agribusiness profiles are available and serve as possible initial pipeline for RK-FINFA support.

constraints by facilitating linkage to access to finance targeting women and youth. In addition, RK-FINFA will promote the economic and social empowerment of female and mixed groups through participatory household focused approaches and the use of Gender Action Learning System (GALS[9]) to reach about 30,000 smallholder households.

c. **Self-targeting** measures will ensure that project interventions respond to the needs and priorities of the target groups and especially women as producers, agro dealers, livestock farmer, fishers and those in food processing and trading. The project interventions will be adapted to women and youth needs by tailoring services and loan products to the priorities and capacities of the poor, such that the amounts available and/or the conditions attached will be considerate of the limitations faced by women and youth.

Other targeting considerations will include the pre-identification of potential beneficiaries from poor communities and social mobilization campaigns using local languages, radio stations, and other community media.

RK-FINFA has a clear strategy for the inclusion of women, youth, smallholder households, PWDs and vulnerable persons. In RK-FINFA, the target is that women comprise 50% of beneficiaries, youth comprise 30% and a minimum of 5% of beneficiaries will be from vulnerable groups (including persons with disabilities and persons with HIV/AIDS). Key strategies to achieve the project' social targeting objectives are described below.

Gender Equality Strategy. The key gender transformational approaches and strategies of RK-FINFA will include support to:

(i)Women economic empowerment for enhanced access and control of productive resources, affordable access to finance and services. Through the Credit Guarantee Scheme and the Green Financing Facility, RK-FINFA will (a) provide financial support to women-owned micro and small and medium enterprises (SMEs) that have growth potential, through participating financial institutions including MFBs/MFIs and SACCOs. This will include considerations for alternative collateral, group lending, longer repayment periods, community outreach/mobile services and digital products to increase outreach to rural areas; (b) technical support services to build the capacity of women in agribusiness, their groups and associations and to build capacity of MFBs, MFIs, SACCOs to support the development of women owned agribusiness and financial products. The capacity to increase the orientation of MFBs, MFIs and SACCOs towards gender and youth-inclusive strategies will include:

- Leverage the potential of Women and Youth Savings Groups and individual lending
- Expand the range of available options in terms of digital financial offers
- Develop new lending approaches that do not exclusively rely on traditional collateral
- Foster the expansion of agent banking in the participating Counties
- Foster women and youth-specific financial offers among formal FIs by promoting internal restructuring
- Tailor and focus the financial offer of formal FIs to the needs of different age of clients and
- Improve data collection practices in the agricultural finance sector in regard to women and youth.

Access to information, knowledge and financial services for women will be through financial literacy, business development services, follow-up and training, and access to digital platforms such as through mobile phones. Women will receive 50 percent of the training in business skills. The TSIS Coordinator of RK-FINFA will integrate gender focused financial education and curriculum development of a national curriculum for sustainability using ICT and e-platforms. A minimum of 30 per cent of the business skills training will target young

9 GALS is a structured community-led empowerment methodology aiming at economic, social and political transformation. It gives women, men and youth, more control over their lives to catalyse a movement for gender equality. Hivos (Humanist Institute for Cooperation with Developing Countries – an International NGO headquartered in the Netherlands in partnership with Oxfam is implementing an IFAD supported regional grant to scale up GALS in the Eastern Africa region. Currently implemented by Upper Tana and KCEP-KCRAL projects.

women and men. In addition, young women and men will be selected and trained as business coaches (ToTs) from the Counties and Wards. Business skills training will be delivered to the various groups through them. Five per cent of the recipients of financial literacy and business skills training will be persons from marginalized groups persons with disability or persons with HIV.

(ii) <u>Balanced and reduced workloads for women</u>. The high workload and lack of time for productive work hinder women from creating viable or more profitable agribusinesses. To address this, RK-FINFA will support women to access green financing for labour and time-saving technologies such as solar lighting and energy saving cooking stoves, to encourage shifts towards equitable sharing of workload burden within the households.

(iii) <u>Enhancement of women's role in decision-making and leadership</u> at household and community level will be implemented through leadership trainings and mentorship of women in farmer and agribusiness groups, village savings and loan groups, associations and co-operatives, and encouraging 50 per cent representation of women in project committees and participation in all project interventions. Other gender related interventions such as awareness raising on issues related to prevention of early marriage and GBV, importance of adolescent girls' education to curb rising teenage pregnancies, will be integrated through the GALS methodology.

(iv) The Gender Action Learning methodology (GALS)and Household methodologies will be instrumental in enabling gender transformation amongst smallholders in groups and in farmer groups to empower women and men towards financial inclusion, more balanced workloads, equitable decision making and benefits sharing. GALS tools will be used to have smallholders engage gender-transformative household dialogue sessions focused on understanding the importance of starting, running, and developing agribusinesses and facilitate changes in contemporary society and adoption of labour and energy saving technologies to increase time efficiency in relation to reproductive and productive work. GALS facilitators selected as GALS champions to train other community persons will be 60 per cent women and 40 per cent men to facilitate gender dialogues. Use of visual maps which make women and youth's division of labour visible helps groups develop a common inclusive and gender equitable vision maps. GALS exchange learning visits amongst groups and with other IFAD projects will be encouraged to provide women with an opportunity to exchange and connect with other women across Counties, dialogue with other key actors and enhance opportunities to learn from each and develop a collective voice and vision. Smallholder households will be the focus of the GALS intervention, encouraging females and males as partners to participate.

Youth Targeting Strategy. RK-FINFA will encourage creation of jobs by and for young people and increasing their employment opportunities along the different value chains through increased access to finance. The current population growth and the trends in agribusiness present an opportunity for young people to set-up and establish businesses that include value addition, processing, marketing, and the transport of agro-products. Specifically, RK-FINFA will support young women and people through:

i) <u>Access to affordable finance and productive assets.</u> RK-FINFA will support youth- sensitive financing modalities in order to address the challenges youth face in accessing financial products and services as well as consider financing options for productive assets. These will include encouraging wholesale lending to MFB, MFIs and SACCOs that have experience and policies geared towards youth; youth cooperatives and savings groups to reduce risks; product development targeting youth; and start-up lending with flexible guarantees with alternative collateral requirements, extended repayment periods and timely approvals. The programme will collaborate with FIs to stimulate financial service providers to pilot and design appropriate financial products incentivize youth. Such products may minimize age restrictions, be more flexible on identification and collateral requirements and flexible know-your-customer requirements for youth-specific products. Special loans may be provided for youth that want to develop businesses in value chains that have fewer youth participating but show high development potential.

ii) <u>Digital solutions</u> – RK-FINFA will leverage on the private sector to pilot and scale-up digital solutions that will positively impact rural young women and men. The programme will approach FSPs and supporting players, in terms of expansion and sustainability of their business models to consider digital solutions for digital finance – for example using mobile money services to rural areas to increase access for rural youth. Consequently, other digital innovations will be considered to increase access to information and rollout of digital financial literacy and BDS making agribusiness a more appealing activity for the youth.

iii) Capacity building on financial literacy and business development training, business skills to equip youth with tools for mindset change and confidence to make sound financial decisions, in turn enabling them to manage financial services and helping the Gender Youth, Nutrition and Social Inclusion m work towards positive mindset shifts will be key. The project will undertake a detailed youth needs assessment will be incorporated into the baseline or initial project studies to determine the differential needs and required skills to be trained on. RK-FINFA TSIS Coordinator will integrate youth focused financial education and an entrepreneurship curriculum into the national curriculum for sustainability using ICT and e-platforms. Short trainings and exposure fairs and visits can be organised at a communal level with assistance of implementing partners or by institutions in form of field internships.

iv) Increasing youth participation and leadership through representation quotas in project committees and activities. The project will aim to work with financial institutions and service providers that have a youth focus. RK-FINFA will encourage the use of youth as financial agents and educators in project activities to empower their leadership skills and include youth sex disaggregated data to monitor their participation.

Nutrition linkages. Investments in agriculture and rural development have an important role in fighting hunger and malnutrition by ensuring that nutritious, safe and diverse foods are made available and affordable for all people at all times, either from the market or from farmers' own production. RK-FINFA seeks to contribute to increased household food security and consumption of nutritious foods. Specifically, the programme will contribute to nutrition outcomes in the following ways:

(i) Increased food production for own consumption and local markets through increased access to finance and productive assets in agriculture value chains. Support to farmers aims to increase the growing nutrient-rich crops (including fruits and vegetables), fisheries (small-scale or commercialized) or rearing animals (for meat, eggs and dairy products) will increase and diversify food consumption and income sources.

(ii) Through increased access to finance and proactive assets leading to increased income generation, the project will aim at increased consumption of nutrient-rich and nutritious foods, such as fruits and vegetables; and increase consumption of animal-sourced foods among small holder households.

(iii) Women's education, empowerment and control over resources will improve nutrition outcomes not only for women themselves, but for their families and communities at large. Understanding how gender roles affect time and labour division, access and control over resources and decision-making at the household level, and how these factors influence the nutrition situation of women and their children, will contribute to improved nutrition. Green and labour-saving technologies in agriculture, particularly supported by RK-FINFA's Green Financing Facility, can help reduce women's workload and increase time available for selfcare, childcare and self-development.

With the above approaches, the Gender, Youth, Nutrition and Social Inclusion strategy provides strategic guidance to RK-FINFA staff to mainstream gender equality, youth empowerment, nutrition, and social inclusion. To operationalise the strategy, a baseline or assessment will be undertaken at start-up to inform the review of the Gender Youth, Nutrition and Social Inclusion (GYNSI) strategy and develop an action plan for integrating gender equality, youth, and social inclusion strategies for the project. The action plan will include targeted interventions for each year and inform the AWPBs. Activities under the action plan will be regularly assessed against this GYNSI strategy's objectives using the logframe indicators. At the end of the financial year, the annual GYNSI action plan will be evaluated with lessons learned taken into account to inform any revisions for the next financial year. In addition, RK-FINFA will monitor and integrate evaluation of the implementation of the GYNSI strategy, at baseline, Mid-Term, and End-Term evaluations.

These social targeting approaches will influence the RK-FINFA implementation process as follows:

(i) Establishing targeting quotas for capacity building of those smallholders who would otherwise not be reached; identification of outreach interventions to cater to the needs of each social group at different levels.
(ii) Ensuring that all activities at local level start with obtaining buy in from local structures, and specifically, support towards social inclusion. Specific issues to be highlighted in that process include:
- Participatory socio economic, gender and youth analysis at community level at the start of the project or baseline
- Agreed criteria for selection of beneficiaries who will receive different financial products promoting meaningful participation of youth and women in project and governance processes
- Mechanisms to ensure project information can be disseminated at flexible timings to ensure that women, men and young people and other vulnerable groups receive project information
- Inclusion of all key groups in project related processes i.e. young men and women of different socio-economic groups, gender, ethnicity, and age
- Participatory assessment of other common social risks and barriers identified in project design that could compromise their participation in project activities; and
- Development of a project grievance mechanism for project beneficiaries know where to go for help and provide feedback on services as well as any challenges they face in participating in project activities

iii) Participatory planning and monitoring throughout the lifetime of the project, inclusive data collection, analysis and dissemination use of disaggregated data by socio-economic group, gender, and age.
iv) Monitoring intended and unintended changes in in the project implementation in relation to gender inequality, youth, and social cohesion.
v) Allocation of funds in the Annual Work Plans and Budgets for targeted interventions for youth, women, and vulnerable groups
vi) Production of knowledge and sharing lessons learnt in the social inclusion aspects within the project and with stakeholders.
vii) At institutional and project levels, the project will ensure:
- Equal opportunity policies and affirmative actions to achieve parity in employment of women, men and young people at the PMU and technical service providers and financial agents hired for RK-FINFA activities
- Training of all project staff at national level, implementing agencies and relevant stakeholders on social analysis, as well as youth and gender transformative programming.
- RK-FINFA human resource policies and procedures to be gender sensitive, attract young people, have zero tolerance to gender-based violence and prevent child labour.
- RK-FINFA partners and associates uphold social inclusion principles through policies and mechanisms of operation.

Relevant lessons learnt for the implementation of RK-FINFA

The RK-FINFA design process was informed by lessons learned and best practices from: (a) previous IFAD experiences in Kenya; (b) results from IFAD projects in other countries of the region; and (c) similar projects financed by the Government or other develop partners in the country. Particularly relevant have been the experiences from the implementation of the IFAD-supported and recently closed Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT). The key lessons from past and ongoing operations for the RK-FINFA design can be summarised as:

- The provision of technical support services (TSS) to PFIs should start immediately after the PFI selection, to ensure that the actual portfolio financing and guaranteeing operations fully benefit from the TSS. Furthermore, the TA functions need to be aligned and well targeted so that TA to PFIs, MSMEs and farmers are provided in synergy.[10]

- RF Project Management Unit and the implementing partners must have adequate capacity and assigned institutional roles for the designed RF instruments.[11] RK-FINFA should build on existing progress of institution-building in the National Treasury and embed all project elements into existing public and private organizations, which have RK-FINFA-aligned mandates.
- Appropriate eligibility criteria for both PFIs and final borrowers in the RK-FINFA financed operations should be included in the design, to ensure both (a) the smooth start-up of financing operations and (b) adequate emphasis on IFAD mainstreaming themes, climate smart agriculture and climate change resilience, gender, and youth empowerment.[12]
- The key investment instruments should be implemented through specialized intermediaries, based on operational guidelines to enable both the smooth operations of the facilities and appropriate controls and reporting through IT-based reporting solutions, supported by systematic field verification visits.[13]
- Targeting framework should be drafted and agreed upon at the design stage of the project, and at start-up confirmed through subsidiary agreements with the PFIs. For appropriate social targeting, a RF project and its PFIs should apply criteria in line with IFAD and Government priorities, including focus on reaching women and youth. For geographical targeting, most ESA RF projects are implemented nationwide in rural areas, while more specific geographical focus is agreed upon with individual PFIs.[14]
- PFI reporting should be based on indicators that the financial institutions collect as a part of their standard operations, focusing on detailed transaction and portfolio data. The evaluations of the project impact on benefiting households should be organised separately by the PMU and carried out on a sample basis by specialist institutions/NGOs, based on experiences from similar projects elsewhere.[15]
- Operating with a large number of different types of PFIs (banks, SACCOs, MFBs) with different types of clientele in different types of environments, appropriate flexibility should be allowed concerning particularly the terms that the different PFIs apply in their lending to final customers.[16]
- To ensure an effective exit strategy for the project and a long-term impact of its investments, the project design and loan negotiations should cover in detail the longer-term sustainability aspects of the supported facilities and make appropriate provisions for the entry to the facilities of new public and private development investors to these rural support facilities. [17]

Particular Lessons Learned emerged and adopted from PROFIT programme:

- Agricultural sector lending works best following a step-by-step systematic approach that builds up from the strategy to the final delivery of products to the client. Even though this approach requires time to build, once institutionalized it becomes a systematic process which can be applied easily. For RSF and CF subcomponents, the key lessons were as follows:
- Technical assistance support needs to precede financial support to ensure effective and sustainable use of credit lines provided and the demand side BSS could have been used more strategically to improve value-chain inclusivity. Participating financial institutions key motive for lending is loan recovery and profitability and not monitoring of the socio-economic impact of the lending.

10 IFAD ESA Rural Finance Stocktake including review of ongoing projects PROFIT/Kenya, MIVARF/Tanzania, RUFIP II/Ethiopia, RUFEP/Zambia, PROFIRA/Uganda, PAIFAR-B/Burundi, FARMSE/Malawi, REFP/Mozambique, FINCLUDE/Eswatini and RUFIP III/Ethiopia
11 See experiences of PROFIT at Mid Term Review report 2014, Supervision reports 2015-2019, IFAD
12 Ibid
13 Principles for Public Credit Guarantee Schemes for SMEs, 2015, World Bank Group
14 See targeting structures of IFAD ESA RF projects PROFIT/Kenya, MIVARF/Tanzania, RUFIP II/Ethiopia, RUFEP/Zambia, PROFIRA/Uganda, FARMSE/Malawi, REFP/Mozambique and RUFIP III/Ethiopia
15 PROFIT Completion Report, 2019
16 IFAD Decision Tools for Rural Finance, 2010
17 PROFIT Completion Report, 2019

- Complementary support systems are needed to support the lending partners (banks) to monitor, assess and document the on-going progress of interventions through a different entity (independent agency or development body).
- PROFIT has very limited information and evidence on how smallholders have benefited from RSF and CF through the Agribusiness anchor or wholesale loans.
- The Monitoring and Evaluation System and annual outcome surveys are an integral part of tracking and monitoring progress and assessment of the impact that the respective sub-components had on the smallholder farmers.
- The demand side BSS applied more strategically would have led to improve value-chain inclusivity.
- The PROFIT design had relatively complex and ambitious targets comprising different credit mechanisms, nationwide scope, a wide number of implementation partners ranging from commercial banks, micro-finance banks (MFBs), technical service providers (TSPs) and non-government organizations (NGOs).
- PROFIT design was not very clear in terms of how commercial banks, under the risk sharing facility (RSF), would have the capacity and incentives to reach the rural poor targeted by IFAD. The Programme was designed to reach the rural poor through partnerships with commercial banks, micro-finance banks and rural Savings and Credit Cooperative Organizations (SACCOs) to increase access to finance.
- The effectiveness of PROFIT would have better pronounced and resulted in clearer results of outcomes and impact, if the disbursement had taken place in a timely manner, as planned in the design. The low rate of disbursement in the first 6 years indicated that the design had not fully analysed the capacity and resources required to implement PROFIT. The assumptions of public sector staff could cross over to support the technical needs of the programme proved to be wrong along with the proposed structure of the PCU.
- Financial Management Systems and Reporting: The key lessons learnt was that the failure to establish dedicated arrangements in terms of the financial team and accounting software capacities contributed to less than effective and efficient financial Management and reporting. The mission concludes that the systems as established in 2018/19 are the best arrangement. Future project implementations should ensure that this ideal model of a dedicated professional team, accounting software and the requisite working systems are established at the project inception.

Detailed recommendations emerged and adopted from PROFIT programme:

- In future interventions, the joint-supervision missions should focus on identifying and addressing challenges and bottlenecks to implementation early in the project cycle. Issues related to contractual arrangements should be examined thoroughly in the first year along with time bound remedial measures. Extension to long-term projects such as PROFIT should prioritize sustainability of results when giving consideration to project extensions. From an EFA point, the targets on beneficiaries were over-ambitious but this was solved at the MTR.
- IFAD and the GOK must carry out an in-depth assessment of the capacity and resources available against defined needs, from targeted key partners (such as the PCU and AGRA - as the key partners), to not just implement but to also effectively coordinate and monitor results achieved from targeted Programme beneficiaries. The organization's past experience in designing and implementing M&E system to measure benefits at the outcome level and in carrying out assessments /evaluations and studies to assess the results at the outcome during implementation. All selected stakeholders should be contractually required to collected data on the agricultural value chains in which they invested as well as on the borrower / rural beneficiary.
- Interventions should allocate appropriate time for building capacity by service providers as timelines should be commensurate with the specific needs of the targeted beneficiaries. Introduction and roll-out of innovative products and building capacity require piloting, testing and refining for expansion and knowledge sharing with respective partners.

- Start-up planning processes should be reviewed in the first six months after the launch of the Programme to ensure that preparedness as early as possible as they are crucial to defining logistics and checking resource availability needed to efficiently operationalize the intervention's initiatives in a timely and cost-effective manner. Now that PROFIT benefits are starting to show benefits, the GoK has to maintain the mechanisms put in place to assure that benefits will continue to be generated as a result of these investments even after PROFIT closure.
- Benefits generation should be sustained even after PROFIT closure. As the Net Present Value of KES 886.9 million is not insignificant at a discount rate of 12% but could have been higher if implementation time/ generation of benefits was not lost in the initial 6 years. From the actual investment funds: (i) the risk sharing facility and (ii) the credit facility, at least 70% will revert back to government to continue the scheme if GoK desires this in perpetuity. GoK should ensure that the two funds are ploughed back in the PROFIT kind of scheme even after PROFIT closure. Without this exit measure, the ERR of 22% as estimated at PCR may drop significantly costing GOK resources to repay the loan from IFAD instead of using incremental tax revenues arising from the investments under the scheme.
- The financiers were timely and therefore efficient in the disbursement of funds and making of the contribution support. The good practice should be adopted for the future programmes. Consequently, the disbursement of IFAD loan and Grant has been efficient and effective, and the practice should be adopted for future projects.
- In any future interventions, technical assistance support should precede financial support to ensure effective and sustainable use of credit lines provided. Simultaneously, the demand side capacity of SHFs and SHFGs should be strategically built to improve value-chain inclusivity.
- Priority should be given to selecting participating financial institutions whose mandate social development and are not only focused on loan recovery and profitability. The institutions should agree to work with the selected service provider to collect or help to collect the required monitoring data on the socio-economic impact of the lending.
- IFAD supervisions in future should put emphasis on progress towards achieving EFA based targets (consistent to the log frame). This would have entailed demanding for gross margin models for the ultimate beneficiaries (smallholder farmers) progressively mission after mission, year after year. At PCR it becomes a difficult to re-run the EFA if this was not being emphasised through supervision missions.

K-FINFA INSTITUTIONAL ARRANGEMENTS AND RESPONSIBILITIES

A. Project Governance and Management Structures

Lead Agency and Project Oversight

RK-FINFA Lead Implementing Agency will be the Directorate of Budget, Fiscal and Economic Affairs (DBFEA) in the National Treasury and Planning (NT&P). The Directorate is headed by a Director General who is answerable to the Principal Secretary of the NT&P. Below the DBFEA, the Financial and Sectoral Affairs Department (FSAD) that will have the day-to-day coordination and supervision mandate of the project.

A Project Steering Committee (PSC) will be established with representation, at senior level, from the ministries and private and public agencies that will play key roles in the implementation of RK-FINFA. The public sector membership in the PSC will include the representatives from the National Treasury and Planning; the Central Bank of Kenya; the Ministry of Agriculture, Livestock and Fisheries; the Ministry of Industry, Trade and Enterprise Development; the Ministry of Public Services, Youth and Gender; the Ministry of Environment and Forestry; the Ministry of Information, Communication and Technology; the Ministry of devolution and ASALs; and SASRA. The private sector members would be from the apex organisations of commercial banks, MFBs/MFIs and SACCOs. Other institutions will be incorporated into the PSC as required. The PSC will be chaired by the PS of NT&P or his/her representative. The key tasks of the PSC include: (a) provide oversight and strategic guidance to the project implementation; (b) oversee planning of project activities; (c) review and approve annual workplans and budgets (AWPBs) prior to submission to IFAD; and (d) review RK-FINFA implementation progress and impact.

The PSC will meet two times a year or as otherwise required. Minutes of the PSC meetings will be included in the project progress reports for review by IFAD. The PMU will act as a secretariat to the PSC meetings.

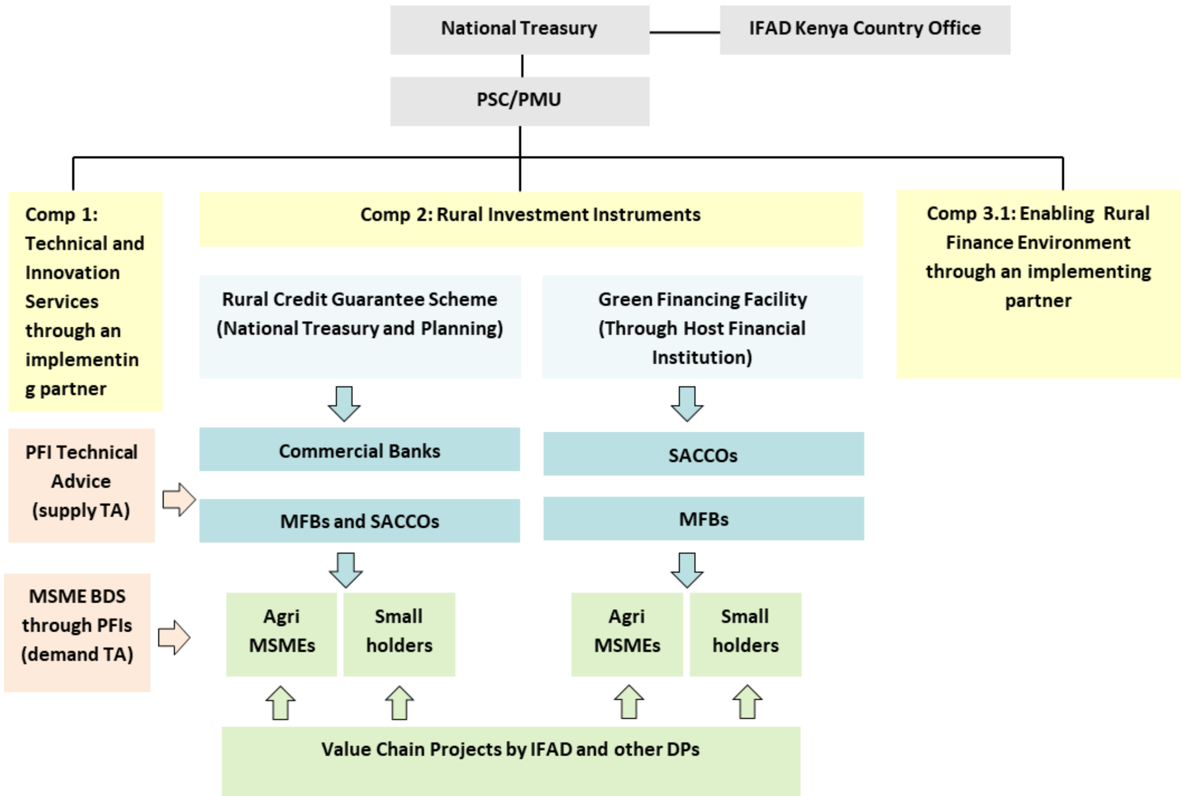
Project Management and Staff

The Project Management Unit (PMU) will be established at the NT&P, housed in the Financial and Sectoral Affairs Department of the DBFEA. The PMU will be lean comprising of 8 professional staff and 3 support staff all to be based in Nairobi. These are: Project Coordinator, Financial Controller, Senior Rural Finance Specialist, Rural Finance Officer, Procurement Specialist/Contract Manager, Monitoring and Evaluation Officer, Value Chain Finance Officer, Social Inclusion Officer, Environment and Climate Change Officer, Accountant, 2 Drivers and an Administrator/Programme Assistant. All the PMU staff will be competitively recruited and paid with project funds. Draft TORs for all PMU officers are provided at the end of this Section of the PIM.

The PMU will report directly to the PSC and will be responsible for the day-to-day management of the project activities. Its responsibilities will include but not be limited to: (i) financial and administrative management of the project resources; (ii) planning of the project activities, preparation of the AWPBs and their execution; (iii) monitoring credit flow to final beneficiaries; (iv) procurement and contracting of goods and services for the PMU; (v) coordination of the various project activities; (vi) supervision of activities' implementation; (vii) setting up and maintaining a flexible and effective M&E system to monitor and record project activities, outcomes and impact; and (viii) preparation of progress reports. The PMU will ensure that the project is implemented strictly in accordance with the Financing Agreements between the GoK and IFAD.

At the County level, each of the ongoing IFAD value chain projects have well-staffed PMUs, supported by County Project Facilitation Teams (CPFTs) and Sub-County Project Technical Teams (SCPTTs), which are composed of subject matter specialists. These PMUs will, jointly with the CPFTs and SCPTTS, sensitize those beneficiaries who they have trained to access financial services and apply for the RK-FINFA-supported resources through the PFIs. The VC projects will also support in following-up of loan utilisation and their outcomes and impact, as part of monitoring undertaken for the ongoing VC projects. The illustration of the full organisation of RK-FINFA is shown in Figure 1 below.

Figure 1: RK-FINFA Implementation Organogram



Office facilities for RK-FINFA PMU. The NT will avail sufficient office space for RK-FINFA PMU, to be housed preferably in the Treasury building or any other building conveniently located for regular consultation between the PMU and Treasury, for the full duration of the Project implementation. The office will accommodate all the PMU staff and its operations and should have good internet connectivity and other utilities. The office should also have room for visiting supervision missions of the Project.

Finalisation of Project Implementation Manual (PIM). The PMU will organise a workshop to review and finalise this PIM and will submit the final version to IFAD for approval.

Finalisation of the First Annual Work Plan and Budget (AWPB), and the Procurement Plan. The PMU – once established – will prepare, finalize and submit to IFAD for prior review its first 18-Months Annual Work Plan and Budget (AWPB), and its 18-months Procurement Plan (PP). The approved AWPB and PP are conditions for the first disbursement.

National Start-up Workshop. The PMU, once in place, will hold a national start-up workshop for RK-FINFA. The objective of the workshop is to obtain a full buy in from all the project stakeholders. The workshop will be organised with the support of the FSAD. In addition to launching of the project, the workshop will also:

- Introduce the Project to its key stakeholders to raise awareness
- Explain the project scope, the activities, and the role of stakeholders in the project implementation
- Explain the project coverage, and the selection criteria of the beneficiaries

- Take stock of preparatory activities carried out
- Present, explain and discuss the implementation procedures as captured in the PIM
- Present the project management and key implementation partners.

The outcome of the workshop will be a common understanding among the RK-FINFA staff and its stakeholders on the:

- ✓ RK-FINFA objectives, activities, expected outcomes of the project and its contribution to the Kenyan Economy
- ✓ Their roles and responsibilities in the implementation of the project
- ✓ Implementation and coordination mechanisms of the Project
- ✓ Administrative and financial procedures underpinning the management of RK-FINFA.

B. Other Implementing Agencies and Partnerships

When implementing its various project components and activities, RK-FINFA will work closely with the following national and county related implementing agencies/partners:

- **Central Bank of Kenya** licenses, regulates and supervises financial institutions including commercial banks, microfinance banks, forex bureaus and representative offices of foreign banks;
- the Ministry of Agriculture, Livestock and Fisheries has the mandate to ensure the country's food and nutrition security, and to improve the livelihoods of rural Kenyans by transforming the sector to be competitive, commercially oriented and responsive to the economic needs;
- the Ministry of Industry, Trade and Enterprise Development is responsible for promoting industrialization and enterprise development in the country through development of micro, small and medium enterprises;
- the Ministry of Public Services, Youth and Gender coordinates gender mainstreaming in national development planning and promotes equitable political and socio-economic development for women, men, girls and boys;
- the Directorate of Environment and Climate Change in the Ministry of Environment and Forestry provides policy guidance, coordination, supervision and advises on issues relating to the environment and climate change, as well as technical oversight and coordination of programmes and projects;
- the Ministry of Information, Communication and Technology has the mandate to formulate policies and laws that regulate standards and services in the Information, Communication and Technology (ICT) sector, Telecommunications and the Media industry, as well as administering ICT standards;
- the Ministry of Devolution and ASALs is responsible for capacity building and technical assistance to counties, facilitation of intergovernmental relations between the national and county governments and among county governments, and tracking of programme implementation in counties;
- SACCO Societies Regulatory Authority (SASRA) licenses SACCO Societies to undertake deposit-taking activities and supervises and regulates such SACCOs.

RK-FINFA will collaborate with the PMUs of the ongoing IFAD financed VC projects that will assist to identify the initial RK-FINFA pipeline. These projects have identified and selected poor women, men and youth for their capacity building activities and have readied them for access to credit.

Other possible co-financiers/implementation partners of RK-FINFA may include: (i) the Financial Sector Deepening Africa (FSDA) in the implementation of the Enabling Rural Finance Environment sub-component; (ii) collaboration with the World Bank's SAFER project in the implementation of the two RK-FINFA financial sector development instruments (R-CGS and GFF); (iii) The UN Resident Coordinator Office in Kenya to regularly announced RK-FINFA investment opportunity investors and other possible private sector partners; (iv) Finland-Kenya ODA programme 2021 TA project for employment creation through SME development; (v) European Investment Bank and KFW who are interested in investing through the RK-FINFA investment instruments; (vi) Green Climate Fund's Private Sector Facility to scale up the Green Financing Instrument to a regional level; (vii) Sweden/SIDA Guarantee Fund programme to partner in the scaling up of the Green Financing Facility; (viii) Agribusiness Market Ecosystem Alliance (AMEA), could to partner with RK-FINFA through identifying and building capacity of potential Farmer Organizations to enter investment pipeline of RK-FINFA; (ix) Land o'Lakes enterprise project called Dairy Nourishes Africa (DNA) could support in building capacity of dairy sector stakeholders to enter investment pipeline of RK-FINFA; (x) the African Development Bank (AfDB) will coordinate with IFAD in rural finance development, through its Youth Agrifinance project, being implemented by the AFC; (xi) the European Union AgriFi and AgriBiz projects will provide viable agribusiness investees through its agri–enterprise development programme.

RK-FINFA Co-Financing and Implementation Partnership Approach

Partnering Functions	*Partners/Networks/ Platforms*	*Specific Results and Outcomes from Partnership*	*Justification for Partnership*
Mobilizing co-financing	National Treasury	Agreed co-investment and finance plan; monitoring repayments and arrears settlement; counterpart contributions	Borrower and delegated agencies
	AGRA/AMEA	Capacity building of PFIs, smallholder farmers and MSMEs to increase their ability to participate in the RK-FINFA	Reduce loan financing burden by funding part of the TA cost with grant
	PFIs	Leveraging lending resources with R-CGS and GFF.	Expand lending to poor rural population
	PFIs	Contributing to the capacity building of their staff involved in RK-FINFA	Commitment to the project
Strengthening private sector engagement	National Treasury	Establishment the Rural Credit Guarantee Scheme	Encourage Private Lending Institutions to increase their lending to agriculture sector
	Commercial Banks, MFBs, SACCOs	Enhanced Understanding in dealing with green financing and agriculture value chains operators	Help the private sector understand and appreciate the agriculture sector
Engaging in policy and influencing Development agendas	GoK	Improved and streamlined rural finance policies and strategies	Need to attract more rural finance participants.
	Financial Sector Deepening Africa (FSDA)	Improved financial sector investment environment	Experience in strengthening Africa's financial markets

Partnering Functions	*Partners/Networks/ Platforms*	*Specific Results and Outcomes from Partnership*	*Justification for Partnership*
Enabling coordinated country-led processes	GoK	Strong and well-functioning Government-led Credit Guarantee Scheme	Ownership of the process.

C. TOR for Key RK-FINFA Staff

Below, the draft TOR for all RK-FINFA professional staff in the PMU are presented.

Draft Terms of Reference: Project Coordinator

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya (GoK). RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and medium enterprises to appropriate financial services. The Project will operate nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) to be based in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as micro, small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Project Coordinator

Duty Station: Nairobi

Overall Scope of Work

The Project Coordinator (PC) will head the PMU and will provide the overall leadership in the project implementation. S/he will coordinate the day-to-day planning and execution of the project activities and ensure timely achievement of intended results. The PC will be answerable to the Project Steering Committee and will work closely with the NT Team assigned to the project. The PC assures that RK-FINFA is implemented along the guidelines provided by the financing agreement, design report, implementation manual and following the guidance given by the lead ministry, the Steering Committee and supervision missions.

Main tasks and Responsibilities

Specific responsibilities of the PC include but are not limited to the following:

a) Oversee and manage project implementation activities in accordance to agreed plans and report on progress and outcomes in a methodological manner, including technical reports and financial reporting
b) Co-ordinate and work with participating FIs, relevant Government ministries and departments, implementing partners, and service providers to ensure smooth execution of the project activities
c) Ensure timely preparation, clearance, and approval of consolidated AWPBs and Procurement Plans, and their execution in accordance with the overall RK-FINFA objectives
d) Supervise the work of the PMU staff and undertake their performance evaluation in a timely manner
e) Promote conducive work environment that promotes knowledge sharing and learning from experiences among members of the Project staff, GoK teams and implementing partners
f) Ensure full inclusion of women, youth, and vulnerable groups among the beneficiaries of the project, according to the agreed social targeting approach of the project
g) Oversee and guide the procurement process of all goods and services, adhering to the agreed IFAD and GoK rules and procedures
h) Facilitate and support the joint IFAD/GoK supervision and implementation support missions and follow-up, midterm, and completion missions, and ensure that their recommendations are fully implemented
i) Work pro-actively to fundraise more resources to scale up the operations of the RK-FINFA core investment components

j) Build and maintain strong collaborative relationships with all project stakeholders and local networks and partner organizations, engaging them on a regular basis to integrate their feedback into the implementation and progress of the Project

k) Represent the project in relevant public events and organise knowledge managements events of RK-FINFA achievements through different media.

Qualifications and Competences

- A university degree in Project Management, Finance, Agricultural Economics, or related discipline relevant, with sound knowledge of contemporary issues in the rural economy of Kenya
- Good understanding in banking and rural finance operations
- Excellent analytical skills, sound judgment, resourcefulness, ability to take initiatives, capacity to self-manage and ability to create a team-based, participatory work environment
- Sound understanding of the Kenya's multi-level government systems (National and County Governments) and their governance and administration modalities
- Good skills in strategic planning and partnership building
- Fluent in English (written and spoken) and Kiswahili languages
- Excellent communication skills
- Relevant IT skills.

Required Work Experience

Relevant professional work experience of at least 10 years in project management, project financial administration and budgeting, including leadership of multi-disciplinary team of experts. Experience in managing projects financed through international development partners will be an added advantage.

Type and Duration of Contract

Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables.

Draft Terms of Reference: Financial Controller

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support Services (TSS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Financial Controller

Duty Station: Nairobi

Overall Scope of Work

The Financial Controller reports directly to the Project Coordinator and is responsible for financial management of the project and for maintaining all project accounts in good order. As head of the Finance Unit for the project, the Financial Controller will take charge of all matters in the project accounting cycle. The project accounting cycle to be overseen by the financial controller starts from financial-related inputs in AWPB preparation and budget control, committing funds, disbursements and cash flow management in an effective and efficient manner, financial reporting to ensuring smooth audits and facilitation for supervision missions on all financial management aspects. The Financial Controller will be responsible for expediting all loan management and disbursement activities through National Treasury systems.

Main tasks and Responsibilities

Specific responsibilities of the Financial Controller include but are not limited to the following:

- Installation of appropriate accounting/reporting systems to ensure that the PMU and especially the Project Coordinator are regularly informed of on-going financial status and transactions.
- Ensure timely capture of project in the GoK budget as required by the GoK budgeting processes and calendars including access to counterpart funding. Evaluate annual work plan and budgeting procedures, and budgetary control systems applied to monitor actual expenditures versus budget including commitment controls to avoid commitments beyond available resources.
- Communicate to all implementing partner institutions and service providers their financial responsibilities, the funds available and how to access it, and the requirements of reporting and record keeping in accordance with prevailing government practices which are acceptable to IFAD.
- Ensure that all project funds are used in accordance with the conditions of the financing agreements, with due attention to economy and efficiency, and only for the purposes for which the funds were provided.
- Assess compliance with Kenya laws and regulations governing the operation of the implementing institutions including accountancy standards and the requirements for audits and financial reporting.

- Ensure that all necessary supporting documents, records, and accounts are kept in respect of all project activities, with clear linkages between the books of account and the financial statements presented to the financiers.
- Ensure that designated account and operational accounts are maintained in accordance with the provisions of the financing agreement and in accordance with the financier's rules and procedures.
- Contribute to the preparation of the Project Implementation and Financial Manuals.
- Ensure the Project's Financial Procedures as detailed in the Project Implementation and Financial Manuals are strictly adhered to by all Project staff and executing agencies at the national and local levels.
- Ensure that the financial statements are prepared in accordance with International Public Sector Accounting Standards as adopted in Kenya.
- Liaise with external auditors to audit the project accounts to meet the required submission dates by both GoK and IFAD. Review external auditor's reports (Audit Opinions and management letters), including any qualifications and whether any concerns raised by auditors have been adequately addressed.
- Liaise with the other Project implementing agencies to ensure that SOEs are prepared in timely manner and forwarded to IFAD.
- Process documentation and follow up on disbursements from the government and IFAD to ensure that releases are not delayed. Ensure that funds for project implementation are disbursed in a timely manner to enable project interventions to be carried out on time.
- Review eligibility of expenditure in accordance with the financing agreement.
- Report on the operation of internal control including budget controls and report any deviations.

Qualifications and Competences

In addition to the general requirements listed above, the following specific qualifications and other requirements are required:

(a) A Bachelor's Degree in Commerce (Accounting option), or Finance, or Bachelor's degree in Business Administration; Accounting or Finance options from a recognized University.
(b) The candidate should have CPA Kenya qualification.
(c) The candidate should have at least a minimum of 8 years' experience working in a similar field and 3 years of which must have been in a senior management position.
(d) The candidate should have demonstrated experience with financial management/accounting in a government ministry/department and donor-funded Project.
(e) Strong computer skills; electronic spreadsheets and other accounting packages.
(f) Working knowledge of banking and financial control procedures.

Type and Duration of Contract

Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables.

Draft Terms of Reference: Project Accountant

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support Services (TSS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Project Accountant

Duty Station: Nairobi

Overall Scope of Work

The Project Accountant will report to the Financial Controller and support him/her in all activities related to the accounting and financial management of RK-FINFA.

Main tasks and Responsibilities

Specific responsibilities of the Project Accountant include but are not limited to the following:

- Preparation of source documents, e.g. payment vouchers and journal vouchers, of RK-FINFA.
- File the project document appropriately with adequate cross reference to ensure ease of retrieval.
- Follow up of accountabilities, maintaining a detailed log of outstanding accountabilities.
- Data entry into the accounting system.
- Preparation of reconciliations for review by the Financial Controller.
- Facilitate; both internal and external auditors to audit the project's financial transactions and reports to meet the required submission dates by IFAD.
- Support the Financial Controller in preparation of reports to enable the withdrawal of funds from IFAD and GoK.
- Maintain key registers such as fixed assets; inputs into the contracts register, contract monitoring forms.
- Support the financial controller in the preparation of informative management accounts in the form of monthly, quarterly, semi-annual and annual reports regarding aspects of project financial monitoring bringing out variances and advising implementers as to the limits of expenditure.
- Support in review reports of IFAD/GoK supervision or review missions and follow-up on the implementation of agreed to actions.
- Support in review other aspects of the accounting and financial control systems, including cash management and banking; procurement of goods and services; advances and acquittals; authorisation of expenditure; and budget/actual comparisons.
- Carry out any other activities that are assigned by the financial controller.

Qualifications and Experience. The candidate should have a Bachelor's degree in accounting and at least Part II of CPA-K or its equivalent /or be qualified accountant. Other skills and experience should include:

- At least five years of relevant work experience
- Knowledge of work planning, budgeting and reporting
- Excellent quantitative and analytical skills
- Computer-literate including accounting packages and well-versed in the use of Excel, Word, and basic data base set-ups.

Type and Duration of Contract

Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables**.**

Draft Terms of Reference: Rural Finance Specialist

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Rural Finance Specialist

Duty Station: Nairobi

Overall Scope of Work: Reporting to the Project Coordinator, the Rural Finance Specialist will be responsible for the successful implementation of the core rural finance instruments (Rural Credit Guarantee Scheme and the Green Financing Facility) of RK-FINFA, as well as the related capacity building operations.

Main tasks and Responsibilities

The specific duties of the Rural Finance Specialist will include:

a) Provide pro-active support to the start-up and subsequent implementation to all rural finance-related RK-FINFA activities

b) Provide pro-active support to the start-up arrangements of the rural finance-related PFI and borrower capacity building operations of RK-FINFA and their subsequent, effective implementation

c) Support the finalisation of the contractual arrangements for the establishment of the rural window to the CGS and the smooth start-up of the R-CGF guarantee operations with banks, MFBs and SACCOs

d) Work with the financial sector to engage FIs with rural orientation to actively expand their rural outreach with R-CGS support and cover

e) Support the NT in the selection and engagement of the Host Institution for the Green Financing Facility

f) Work directly with the GFF Host institution to encourage the active participation of appropriate MFBs and rural DT-SACCOs in the green financing operations with the GFF support

g) Oversee the establishment of an effective, IT-based MIS and reporting systems for the R-CGS and GFF operations and organise systematic field verification visits to the PFIs and their RK-FINFA-supported clients

h) Lead, together with the NT and the GFF Host Institution, the fundraising efforts to scale of the outreach and impact of the RK-FINFA key financing instruments

i) Co-operate with the RK-FINFA supported efforts to improve the operational environment for rural finance in Kenya, including the measures to transform the CGS into a semi-independent company

j) Prepare, jointly with the implementing partners and the project KM staff, knowledge management products based on RK-FINFA rural finance experiences and use appropriate media to publish these products in Kenya and in the region

k) Work closely with other rural finance support initiatives in Kenya with the regional RF networks to learn from their experiences for the benefit of RK-FINFA implementation.

Qualifications and Competences

- A university degree in Finance, Economics, Commerce, or related discipline, with sound knowledge of contemporary issues in the rural economy of Kenya
- Good understanding in banking and rural finance operations
- Excellent analytical skills, sound judgment, resourcefulness, ability to take initiatives, capacity to self-manage and ability to create a team-based, participatory work environment
- Good skills in strategic planning and partnership building
- Fluent in English (written and spoken)
- Excellent communication skills.

Required Work Experience

Relevant professional work experience of at least 10 years at a senior level in banking/rural finance. Relevant experience in externally funded development projects with focus on rural finance.

Type and Duration of Contract

Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables.

Draft Terms of Reference: Value Chain Finance Officer

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Value Chain Finance Officer

Duty Station: Nairobi

Overall Scope of Work: Reporting to the Rural Finance Specialist, the Value Chain Finance Officer will support the Rural Finance Specialist in the management and coordination of the Value Chain Financing activities of RK-FINFA, especially, manage the project's connections with partner VC projects and identify suitable pipeline for the RK-FINFA TSIS services and later investments. In addition, he/she will monitor the Value Chain Financing model under the R-CGS special investment types.

Main tasks and Responsibilities

The specific duties of the Value Chain Officer will include:

a) Support, together with the Rural Finance Specialist, to the start-up and subsequent implementation to all rural finance-related RK-FINFA activities

b) Create linkages with the ongoing VC projects (especially IFAD's VC project portfolio) in Kenya, with the intention to identify pipeline for TSIS services and financing instruments of RK-FINFA

c) Assist the partner VC projects in provision of relevant pre-support to their target groups, enabling the stakeholders' incorporation into the RK-FINFA pipeline

d) Take direct responsibility of the timely start-up of the project's Value Chain Finance activities related PFI and borrower capacity building operations and their subsequent, effective implementation

e) Assist the banks in their design and implementation of the R-CGS Investment Type 3: Value Chain Financing product through MSMEs to their supply chains stakeholders

f) Support linking of VC projects' stakeholders to banks, MFBs and rural DT-SACCOs

g) Conduct frequent and systematic field visit to support the PFIs in their RK-FINFA supported field operations

l) Carry out any other tasks activities that are assigned by the Rural Finance Specialist or the Project Coordinator.

Qualifications and Competences

- A university degree in Agriculture Finance, Economics, Agribusiness, or related discipline.

- Good understanding in rural finance and agriculture finance operations
- Good skills in strategic planning and partnership building
- Fluent in English (written and spoken)
- Excellent communication skills.

Required Work Experience

Relevant professional work experience with at least 5 years at in rural finance and agriculture finance. Experience in externally funded development projects with focus on rural finance is an advantage.

Type and Duration of Contract

Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables.

Draft Terms of Reference: Monitoring and Evaluation Specialist

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Monitoring and Evaluation Specialist

Duty Station: Nairobi

Overall Scope of Work: Reporting to the Project Coordinator, the Monitoring and Evaluation Specialist will have the overall responsibility for the coordination of the timely establishment, operation and maintenance of the project M&E system in full accordance with IFAD standard M&E requirements including the guidelines for Core Indicator (COI) measurement; for the generation of knowledge and evidence; and for the communication of project activities, achievements and lessons learned.

Main tasks and Responsibilities

The specific duties of the Monitoring and Evaluation Specialist will include:

a) Set up the M&E system for RK-FINFA:

- Revise the project logframe matrix and include gender sensitive indicators.
- Assist in developing the results oriented-AWPB.
- Develop the overall framework for the project M&E.
- Guide the process of reporting against the project key indicators.
- Prepare and M&E matrix.
- Ensure the M&E system is aligned with IFAD standard requirements.
- Ensure all monitoring and assessment reports adequately report to IFAD COI system.

b) Set up an MIS system that entails:

- Development of formats (for data collection, analysis and interpretation) to track project inputs and its results: production, consumption, sales and income of the producers and traders/buyers at household, group and value chain/cluster level.
- Coordinate with other project staff, especially planning and M&E staff, to ensure MIS system is appropriately designed and implemented such that they enable data-rich knowledge management, captures and analyses disaggregated data on gender and social inclusion.
- Define requirements for use of software for a web-based online MIS and off-line tablet-based devices.

c) Provide technical assistance to recruit, guide and supervise organisations or individuals contracted to implement surveys and studies required for evaluating project effects and impacts.

d) Develop a capacity-building plan on M&E for the project staff and implementing partners, including:

- Development of training modules for different stakeholders and partners;
- Development of operation manuals/guidelines on M&E processes;
- Use of software for MIS and GIS required for the functioning of the MIS system;
- Train M&E staff at national and local levels (Training of Trainers); and
- Set up a cascade training mechanism for Extension Officers seconded fulltime to the project, Social Mobilizers and Business Skills Mentors and GALS Social Mentors.

e) Design, at the project start-up, a RK-FINFA communication strategy, geared towards the target group and stakeholders, project implementers, and to a wider public, both within Kenya and outside.
f) Develop a functional approach for prioritising and implementing Knowledge Management activities and for developing and disseminating knowledge tools and products.
g) Assist the Project Manager in consolidating gender sensitive project progress reports.
h) Advise the Senior Management by identifying areas of concerns that might justify a review of the project M&E and KM systems and/or implementation arrangements, including adverse effects on target groups as a result of project implementation, and suggest remedial measures if necessary.
i) Undertake regular field visits to follow-up recommendations made from previous supervision missions and support the project implementation in other ways as requested by the Project Coordinator.
j) Carry out any other relevant duties as may be assigned by the Project Coordinator.

Qualifications and Competences

- Master's degree in Agriculture, Economics, Statistics, M&E, Development Studies, Rural Development, Planning or a related field
- Solid knowledge of participatory M&E approaches and techniques.
- Strong knowledge in the development of performance-based indicators.
- Demonstrated experience in the techniques of data collection, data entry, data analysis and design of management information systems to facilitate the planning and decision- making processes within the institution/s.
- Working knowledge of written and spoken English.
- Excellent analytical and report writing skills.
- Excellent spoken and written English.
- Strong knowledge of computer applications, particularly MS Excel, Word, Access and PowerPoint, STATA and other software packages for data analysis and technical reports.

Required Work Experience: At least 8 years of work experience with (a) M&E and KM Designs and implementation, (b) data management and analysis, (c) capacity building and training in M&E development and implementation, (d) use of Geographic Information Systems technologies, and (e) knowledge management strategy development.

Type and Duration of Contract

Three years' contract with possibility of extension based on performance.

Draft Terms of Reference: Procurement Officer

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support Services (TSS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Procurement Officer

Duty Station: Nairobi

Overall Scope of Work

The Procurement Officer reports directly to the PC and is responsible for managing procurement processes and contract administration aspects. As head of the Procurement Unit of the PMU, the incumbent will be tasked to ensure compliance with Kenyan Public Procurement and Disposal Act, 2015 and its attendant regulations and ensure due diligence to comply with IFAD Procurement Guidelines and handbook, 2019.

a) Installation of appropriate procurement systems and procedures for effective planning and monitoring of procurements under the project
b) Oversee preparation and consolidation of inputs to the Annual Procurement Plan
c) Finalize, within three months after start of duty, a draft manual on procurement by partners, which sets the minimum standards of compliance for the procurement of goods and services under RK-FINFA financing
d) Train continuously the implementers in the preparation of Terms of Reference and specifications and proactive follow-up of these inputs in the bidding processes
e) Prepare bidding documents based on acceptable bidding standards
f) Ensure all prior review requirements such as obtaining of the No Objections from IFAD are complied with in a timely manner
g) Ensure that all the due tendering processes are adhered to sufficient publications, strict adherence to deadlines, transparency in communications with bidders, publication of bid results, etc.
h) Ensure acceptable record keeping in procurement with a complete procurement file for each procurement from start to contract finalization. Maintain all procurement records in a form appropriate for regular auditing and spot checks by supervision missions
i) Communicate to all implementing entities and service provider their responsibilities and requirements with respect to procurement in keeping with prevailing government practices which are acceptable to IFAD
j) Oversee the contracting process, including ensuring that Evaluation Committees have people with appropriate expertise
k) Monitor implementation of contracts: report status and problems to the PC on a monthly basis and intervene to address problem upon request by the PC
l) Ensure that goods and services financed have been procured in accordance with the loan agreement and the Kenyan Public Procurement and Disposals Act
m) Work with the Financial Controller to ensure that tax exemptions for the procurement of goods

for the project are secured at the appropriate time

n) Prepare quarterly reports of progress with implementation of the Procurement Plan, and regularly inform the PC of problems and make proposals to overcome bottlenecks
o) Carry out any other activities that are assigned by the PC.

Minimum Qualifications

(a) A Bachelor's degree in Procurement and Supplies, Commerce, Public Administration, Law, Accounting, or any other related field and a full CIPS (Chartered Institute of Procurement and Supply). A post graduate qualification will be an added advantage
(b) A minimum of 5 years' experience dealing with procurement of civil works, goods and services, and with the award of contracts for GoK/donor funded projects
(c) Experience in preparing tender and contract documents for national and international competitive bidding
(d) A comprehensive knowledge of Public Procurement Regulations, as well as procurement guidelines for IFAD and/or World Bank
(e) Appropriate computer literacy
(f) Fluency in both English and Kiswahili
(g) Good interpersonal and communication skills.

Type and Duration of Contract: Three-year contract, with 3 months' probation period, renewable based on agreed performance targets and deliverables**.**

Draft Terms of Reference: Social Inclusion Officer

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Position: Social Inclusion Officer

Duty Station: Nairobi

Overall Scope of Work: Reporting to the Project Coordinator, the Social Inclusion Officer will be responsible for the successful implementation of the social inclusion strategies of RK-FINFA.

Main tasks and Responsibilities

The specific duties of the Social Inclusion Officer (SIO) will include:

a) Be responsible for the development and implementation of the RK-FINFA Gender equality and women empowerment, youth, and social inclusion strategies in project interventions to ensure results for gender transformation and youth sensitive programming are achieved and on track. This will include support to undertake gender, youth and social inclusion assessments and analysis to inform gender and youth strategies at project start up, lead the integration of gender and youth inclusive approaches during implementation, and monitoring progress against RK-FNFA targets.

b) Ensure that activities of the targeting and gender strategies are reflected in (i) preparation of the AWP/B; (ii) design and implementation of the project M&E system; (iii) project progress reports and Project supervision.

c) Participate in the development of detailed TORs and tender documents of national and local service providers to various project components to ensure that target groups will be able to participate effectively in all components and meet the project's targets.

d) Undertake regular capacity assessment on gender and social inclusion issues and provide capacity-building for staff at the field level, PMU, implementing partners and service providers.

e) Liaise with the IFAD country office and gender team on questions regarding gender in implementation, knowledge-sharing and other aspects.

(f) Serve as a channel of communication between the project and others working on gender issues in government, implementing agencies, other development projects and IFAD.

(g) Help project colleagues access the information they may need on gender issues and share good practices.

(h) Coordinate and monitor the implementation of the youth empowerment, gender transformative approaches, women empowerment and GALS approach including contracting consultants or service providers for technical assistance, reviewing the TORs, and coordinating between the project and the required technical assistance.

(i) Together with M&E and knowledge management staff, establish an M&E system that captures and analyses disaggregated data on gender and social inclusion. Document and share M&E, learning and communication products.

(j) Analyse data to ensure that there are no adverse impacts on target groups as a result of project implementation and suggest remedial measures if necessary.

(k) Track the project's effectiveness in targeting strategy, gender equality and women empowerment, youth and vulnerable groups.

(l) Carry out any other relevant duties as may be assigned by the Project Coordinator.

Qualifications and Competences

- A Master's degree in social science or a field related to rural community development /gender/nutrition/youth/social inclusion.
- Experience with poverty, gender and youth targeting in agriculture-based rural development financial inclusion programmes.
- Experience in rural development project management and implementation.
- Knowledge of participatory and Household Methodologies, especially GALS.
- Good communications and IT skills as required for the SIO position.

Required Work Experience

A minimum of 10 years of experience in community development and applied gender mainstreaming at project or institutional level.

Type and Duration of Contract

Three years' contract with possibility of extension based on performance.

<u>Draft Terms of Reference: Environment & Climate Change Officer</u>

Background: The Project

Rural Kenya Financial Inclusion Facility (RK-FINFA) is a six-year development project financed jointly by the International Fund for Agricultural Development (IFAD) and the Government of Kenya. RK-FINFA supports the transformation of rural and smallholder agriculture sector through private sector-led development by improving the access of the smallholder farmers and rural micro, small and enterprises to appropriate financial services. The Project operates nationwide in Kenya. It consists of three interlinked components: (a) Component 1: Technical Support and Innovation Services (TSIS); (b) Component 2: Rural Investment Instruments; and Component 3: Enabling Rural Finance Environment and Project Coordination.

RK-FINFA is in the process of recruiting officers for its Project Management Unit (PMU) in Nairobi. While the lead agency of the project is the National Treasury, all RK-FINFA activities include pro-active co-operations with the private sector, including financial institutions, the farming community as well as small and medium enterprises and larger processing and marketing companies in key agricultural value chains.

Scope of Work

The Environment and Climate Change Officer (ECCO) will work closely with all PMU staff, in particular the Social Inclusion Officer and the Rural finance Specialist, and implementing partners (host institutions, PFIs, and technical service providers) to cover the entire project's environmental and climate change oversight. The position will provide support to the project to comply with environmental and climate requirements through: (i) technical backstopping and advising the PMU and implementing partners in addressing a variety of environmental and climate issues, (ii) providing/coordinating environment and climate related training/awareness raising particularly in regard to setting up environmental and social management systems, (iii) supporting the PFIs to develop and implement ESMSs, (iv) providing support to MFBs, SACCOs and MSMEs to develop ESMSs appropriate to the nature and scale of their activities, and (v) ensuring that environment and climate issues are mainstreamed into project interventions and in the application of project documents.

The ECCO will report to the Project Coordinator.

Specific Roles and Responsibilities

Under the direct supervision of RK-FINFA Project Coordinator, the ECCO will be responsible for, but not limited to, the following duties:

- Guide the project in mainstreaming environment, climate and NRM considerations in all interventions and implementation processes.
- Prepare guidelines, tools and notes for use in the project based on relevant environmental policies, acts and regulations/directives of the Government of Kenya and relevant safeguard policies of IFAD.
- Ensure that national and IFAD's SECAP guidelines and procedures are complied with at all times and at all stages of project implementation.
- Support proactively the Rural Finance Specialist of the PMU in the development and roll-out of the Green Financing Facility operations with the GFF Host Bank and the participating financial institutions.
- Support the recruited RK-FINFA technical Service Providers in the development and application of technical green financing packages and training events/modules for both the FIs and their borrowing clients.
- Oversee and provide technical support towards the development of the ESMS, indicators, tools, guidelines on environment and climate aspects of the project's baselines, and ensure that the progress is also systematically monitored, including the mid-term and end line.
- Develop relevant training and capacity building materials for environment and climate awareness, and for setting up ESMSs,

- Ensure that PFIs develop ESMSs appropriate to the activities they fund, and that they implement to the necessary environmental, climate and social processes and procedures as required by their ESMSs.
- Develop implementation strategies of AWPB activities related to environment, climate and NRM activities and ensure AWPB targets are met in a timely manner.
- Review activity plans, ESMSs and other safeguard requirements for PFIs, and implementing partners and contractors, to ensure environmental, climate issues are mainstreamed and mitigation measures are incorporated, and ensure all project documents and environmental documents are in harmony.
- Liaise with relevant officers at the all levels to monitor E&S performance of RK-FINFA on-lending activities.
- Support Programme M&E through data collection and writing of required reports.
- Represent the PMU in relevant meetings and workshops, as well as in the preparation of any documents required to mobilise climate finance.
- Any other environment-related duty as assigned by the Project Coordinator.

Qualification and Experience

- Master’s Degree or equivalent in Environmental Sciences; Natural Resource management and NRM or any related field.
- At least 8 years of relevant and progressive experience at community, national or international level in providing environmental management advisory services, hands-on experience in design, monitoring and evaluation of development projects and establishing interrelationships among international organizations and national governments.
- Sound knowledge of policy and regulatory frameworks for environmental, climate assessments and natural resource management in the agricultural/livestock context of Kenya.
- Demonstrated capacity to develop environmental and social management systems, execute safeguards, prescribe solutions to environment and natural resource management problems, manage budgets and programs, as well as prepare reports.
- Excellent skills in written and spoken English and Kiswahili, and good computer skills; knowledge of other local languages will be an added advantage.
- Creative, innovative system thinker, with ability to catalyse change.
- Affiliation to a local environmental body.
- Previous experience in development and implementation of green finance operations would be a major advantage for the candidate.

Duration
Three years’ contract with possibility of extension based on performance.

DETAILED IMPLEMENTATION MODALITIES: COMPONENT 1: TECHNICAL SUPPORT AND INNOVATION SERVICES (TSIS)

Overall Component Structure and Implementation Approach

Through two fully inter-linked sub-components, the RK-FINFA TSIS is designed to

(i) strengthen Financial Institution (FI) capacities for innovation, rural outreach and green finance services in Kenya, and

(ii) build MSME and smallholder sustainable investment capacities and financial literacy skills.

Both aspects of the TSIS, *supply and demand side*, are embedded into the rural growth strategies of the PFIs, and support the effective use of the resources provided throught the project's Investment Instruments Component. The TSIS thematic areas vary for each PFI.

The supply side package depends on:

(i) PFI type (bank, MFB, SACCO),

(ii) the level of PFI development

(iii) specific needs in its rural growth strategy,

(iv) the types of innovations the PFIs wish to pursue to increase their rural outreach.

The demand side package is specified based on:

(i) PFI's identified target value chains

(ii) PFI's identified geographic areas.

Launching of TSIS

Step 1: At RK-FINFA start-up, the project's implementing partners will advertise its offered support instruments broadly among Kenyan financial institutions. The communication will include direct contacting of FIs and utilization of platforms such as the SACCO associations, the MFI association, the bankers' associations, the UN SDG platform, and other forums in Kenya. The messages by the project will include transparent and comprehensive descriptions of RK-FINFA including the project's geographic priority areas, development objectives, the TSIS package and the offered investment instruments.

Step 2: Interested financial institutions are requested to submit their Expressions of Interest (EoI) to partner in the RK-FINFA implementation. The EoIs will follow a prepared RK-FINFA template, where the candidate PFIs are requested to detail their proposed:

- Rural and Agriculture Finance, Green Finance and/or Digital Finance innovations and activities to be promoted with RK-FINFA support,
- Target geographic areas, target value chains and examples of investment types including green investments to be financed with RK-FINFA resources,
- Utilization of RK-FINFA supply and demand side TSIS including preferred service mechanism (internal or external for demand side), short list of preferred external TSPs, and level of PFI co-finance to cover the TSIS cost,
- Overall FI strategy for upgrading and expansion of green investments, agriculture and rural portfolios, and outreach to women and youth,
- Statement of the FI financial performance, commitment, and capacity to sustainably absorb and manage the RK-FINFA instruments, following criteria agreed upon with the R-CGS and GFF implementing institutions, and
- Statement of the FI's MIS capability and its development requirements to provide the required borrower-level reports.

Step 3: Upon receipt of EoIs, the RK-FINFA TSIS Coordinator will conduct an assessment of the EoIs submitted by the applying financial institutions. The results of the assessment and recommendations for PFI selection to the TSIS pipeline are submitted to the PMU for approval, and subsequently shared with IFAD for no-objection. The project repeats this call for Expressions of Interest bi-annually until the completion of the pipeline for RK-FINFA TSIS implementation.

Step 4: Upon approval and admission of the PFIs into the TSIS pipeline the TSIS services are launched by mobilization of a local specialized Technical Service Provider, jointly identified with the PFI. Subsequently the PFI will be eligible to apply for financial resources through RK-FINFA Sub-components 2.1 and 2.2 for implementation of the proposed rural and agriculture finance strategy and innovation.

Management of TSIS

A co-financing partner organization or organizations coordinate the TSIS component on behalf of the National Treasury as "the TSIS Coordinator", and co-finance the coordination cost. In addition to the additional budget, the selected partners will bring to project a comparative advantage in coordination of technical services and promotion of innovations in the rural finance sector. The partners will work under the supervision and oversight of the RK-FINFA PMU.

At the RK-FINFA start-up, the NT and the TSIS Coordinator(s) will negotiate and sign an MoUs on the role and responsibilities in the Components 1.1 and 1.2 implementation. The MoU will include a financing framework for the whole 6-year project period. It will also include a financing plan for the activity, indicating the annual financing shares of the GoK/IFAD and the TSIS Coordinators. The aim is that TSIS Coordinators cover at least 50 per cent of the management costs for the Component 1.

The finalisation of the focused activity plan for Sub-components 1.1 and 1.2 and the selection of the core support areas will be completed after receiving a detailed proposal (including a confirmed co-financing budget) from a pre-selected TSIS Coordinator(s). Under the arrangement agreed during the final RK-FINFA design, the tasks of the co-investing TSIS Coordinator(s) are planned to include the following:

- Plan, manage and coordinate, under the oversight of the PMU, the successful implementation of the Sub-components 1.1 and 1.2 in support of the rural finance operational environment in Kenya
- Design and agree with the NT an overall framework plan for the implementation approach of the Sub-component 1.1 and 1.2 activities over the 6-year RK-FINFA project period, with adequate room for flexibility in the implementation approach, targeting 50 per cent women and 30 per cent youth using appropriate products and approaches
- Prepare the first AWPB for Sub-component 1.1 and 1.2, with detailed activity plans and resource allocations
- Prepare, based on progress achieved and experience gained, the subsequent AWPBs for the sub-components and present them to the PMU for including in the RK-FINFA AWPBs
- Allocate appropriate and adequate specialist resources required for the successful implementation from the own resources of the TSIS Coordinator(s)
- Prepare the TORs for the externally recruited Technical Service Providers for the Sub-components 1.1 and 1.2 with capacity to deliver on gender and youth targets
- Advertise the TORs broadly among the potential private and NGO sector service providers
- Contract, through procurement procedures agreed with the NT/IFAD/PMU, the required additional, external expert resources through market-based bidding to support the effective implementation of the planned activities, by the Technical Service Providers
- Introduce, train and standardize international best practices and appropriate, innovative toolkits among the Technical Service Providers including gender-inclusive product design and outreach services targeting, and ensure utilization
- Organise the appropriate knowledge management activities and events to share the outcomes of the Component 1 implementation with the financial sector and the wider public, including the development networks of the UN and other external partners of RK-FINFA

- Report to the PMU on the progress of the Sub-components 1.1 and 1.2 implementation based on reporting requirements agreed on in the MoU between the NT and TSIS Coordinator(s)
- Conduct the accounting and financial management tasks related to Sub-component 1.1 and 1.2 implementation according to the FM rules and procedures agreed for RK-FINFA (see RK-FINFA draft FM Guidelines in this PIM)
- Support the RK-FINFA Implementation Support and Supervision missions and other agreed RK-FINFA missions and evaluations in their work concerning the progress of Sub-component 1.1 and 1.2.

The Participating Financial Institutions (PFIs) will co-finance the TSIS costs at a minimum level of 20% for the commercial banks, 15% for the MFBs and 10% for SACCOs.

The TSIS will need to be operational with a selected PFI prior to its application to implement the Component 2 Investment Instruments.

Sub-component 1.1: PFI Capacity Building for Rural Outreach and Innovation. The overall purpose of this sub-component is to improve the capacity PFIs to provide financial services to rural agricultural chain actors and especially to reach with RK-FINFA services 50 per cent women and 30 per cent youth clients.. The expected outputs include: (i) five participating commercial banks capacity improved to invest in agriculture VCs; (ii) six participating MFBs and 30 DT-SACCOs capacity improved to provide rural and agriculture financial services; (iii) the capacity of all 41 PFIs built to implement and monitor green investment portfolios; and (iv) Environmental and Social Management Systems operationalized by the PFIs.

The PFIs will be provided with a demand driven package of technical support and innovation services (TSIS) aimed at helping the PFIs to develop and offer appropriate financial services, manage risk of lending to the rural/agriculture sector and reduce transaction costs.

In the Expressions of Interest (EoI) the PFIs will have identified and proposed key technical support areas to expand their rural outreach and agriculture finance. Based on the EoIs, the RK-FINFA technical support packages including technical topics and appropriate service providers will be tailored for the needs of each PFI.

Potential PFI capacity building technical support areas will include:

- Green Finance strategy, products and monitoring toolkit developed for each PFI participating in the Green Financing Facility (GFF – Sub-component 2.2) which will directly support the GFF rollout. This will be a standardized module to establish national best practice and support Kenyan financial institutions to increase their green portfolios.
- Gender, youth and social inclusion studies, strategies and toolkit developed for each PFI which will support the outreach achievement of 50 per cent women, 30 per cent youth and outreach to 5 per cent vulnerable groups. The studies and strategies will inform PFIs awareness on the needs and opportunities for women and youth leading to more inclusive products and services to increase uptake and outreach among these groups.
- Introduction and utilization of Smallholder and Value Chain Digital Platforms present in Kenya, to enable data driven, affordable and effective risk management of agriculture loans with outreach to include remote rural areas. A pool of platform providers will be collected and linked with RK-FINFA Participating Financial Institutions for potential collaboration in service provision, supported by the project resources.
- Agriculture Value Chain Finance strategy and specific products developed including for alternative collaterals, contract farming finance, warehouse receipt systems and cash flow lending. Opportunities and risk assessments of VC stakeholders carried out.This Technical Service will directly lead to investments through RK-FINFA Component 2.
- Upgrading of Management Information Systems (MIS) of smaller PFIs based on their demand, especially with the objective to integrate seamless mobile banking transaction to their core banking system, as well as support to automatization of client profiles and risk assessments. The PFIs will need to cover a more substantial share of the relatively high cost of this possible intervention.
- Remittances technical advisory services delivered to PFIs with support by the ongoing IFAD's PRIME Africa project.

- Effective Agriculture and Climate Insurance products and solutions such as bundled loan/input/insurance packages introduced to PFIs with support by the ongoing the IFAD-led PARM and INSURED global initiatives.
- Environmental, Social and Governance (ESG) standards including climate change risk management strengthened or introduced to the PFIs through the establishment of environmental and social management systems (ESMS). Guidance on the management of environmental, social and climate change risks are provided in Appendix 3 of this PIM.

In addition, the PFI technical support package will include assistance by the TSIS Coordinator and the recruited Technical Service Provider at each PFI to monitor and evaluate the social and environmental targeting and impact of the RK-FINFA resources.

A particular target of this sub-component is to develop a permanent culture in the PFIs for long term pro-active rural product innovation while at the same time, with improved technical skills, to help the financial institutions to immediately reduce the risks associated with designing, piloting, and launching of new products. Success in this area will be especially important for the succcessful implementation of RK-FINFA financial instruments.

Sub-component 1.2: Business Development Services for Agribusinesses and Smallholders. The expected outputs of this sub-component are: (i) 1,500 small and microenterprises receive Business Development Services (BDS) and are able to submit bankable business plans; and (ii) 50,000 male and female smallholder producers receive financial literacy training including for preparation of simple business plans appropriate for SACCO/MFB loan applications. The PFIs can either utilize their own internal service units with RK-FINFA support, and/or recruit external TSPs for the delivery of the Agribusiness BDS and Smallholder Financial Literacy services. The BDS is key tool for ensuring that a minimum of 50% women and 30% youth are included among all BDS clients.

Pipeline generation of agribusinesses and smallholders for the TSIS. The agribusiness and smallholder candidates into the TSIS programme of RK-FINFA are identified through the geographical targeting of the PFIs and the value chain targeting of the project aligned with the four IFAD-financed ongoing value chain projects in Kenya and supported by pipeline referrals by the VC projects. The final TSIS pipeline generation is based on expressed demand from agribusinesses and smallholders, following a set of pre-defined eligibility criteria described in the PIM. The provided BDS and Financial Literacy services will in turn will lead to increased access to finance through the PFIs. The TSIS target groups include at least 50 per cent women and 25 per cent youth. A dedicated specialist is recruited in the RK-FINFA PMU to support coordination with ongoing value chain projects and the pipeline generation.

Agribusiness BDS. The TSIS Coordinator and the PFIs will mobilize appropriate BDS services to the pipeline of targeted agribusinesses. The aim of the BDS is to strengthen the bankability, business planning capacity and financial management skills of the MSMEs, and thereby lower the investment risk for the PFIs. Furthermore, a standard bankability assessment will be completed for each agribusiness, helping to inform the PFIs of the real investment risks and opportunities paying attention to women and youth inclusive processes. The BDS services are demand-driven and a mandatory element prior to lending through RK-FINFA Investment Resources. The aim of the BDS is to ensure that all RK-FINFA financing will target well planned productive and screened investments in the rural agricultural sectors, thereby reducing the risks of overindebtedness of the MSMEs as well as the NPL rates of the PFIs.

Smallholder Financial Literacy services. The PFIs providing financial services to rural communities, including women, youth and vulnerable groups will, with support from the RK-FINFA, mobilize financial literacy training to the targeted groups and communities of beneficiaries. The major objective of this is to increase savings levels for sustainable investment by the supported households, while simultaneously increasing savings mobilization as a long term core fund raising strategy of SACCOs and MFBs, which in turn increases possible investment volumes in the rural communities. Training topics will include: basic banking skills; "Saving for a Purpose"; managing resources; borrowing; interest rates; collateral; bank transactions and payments; and use of mobile and digital banking. Furthermore, a targeted module for women and youth empowerment in the use of financial services will be developed and rolled out.

Demand side TSIS delivery mechanism. The PFIs can either utilize their own internal service units with RK-FINFA support, and/or recruit external TSPs, for the delivery of the Agribusiness

BDS and Smallholder Financial Literacy services. The pipeline generated through the demand side TSIS is linked to the outreach mechanisms of the PFIs, which are strengthened through the supply side technical support to PFIs, leading eventually to the actual investments and effective utilisation of the RK-FINFA Component 2 financial resources.

DETAILED IMPLEMENTATION MODALITIES: COMPONENT 2: RURAL INVESTMENT INSTRUMENTS

The RK-FINFA will operate with two Rural Investment Instruments: (i) a ***Rural Credit Guarantee Scheme*** (R-CGS), and (ii) a ***Green Financing Facility*** (GFF). Both the R-CGS and the GFF will be designed as sustainable financing vehicles, which can utilize resources from the GoK and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions. The Technical Support and Innovation Services packages under Component 1 will support the PFIs in the implementation of the rural investment instruments, in line with each PFI's respective rural and agriculture finance strategy. Identification and referral of agribusiness and smallholder candidates into the PFI funding pipelines are supported as described above in Component 1.2 (BDS and Financial Literacy services). Below, the guidelines for the implementation of R-CGS and GFF are provided. The Operations Manuals for the two schemes will be finalised at the project start-up.

Guidelines for Rural Credit Guarantee Scheme Implementation

The expected results of the R-CGS are: (i) supported by the R-CGS guarantee amount of US$ 20 million, PFIs are expected to lend US$ 80 million to rural MSMEs and agriculture value chains; (ii) 2,000 rural MSMEs have improved access to finance; (iii) 15,000 microenterprises and farmers have improved access to finance, and (iv) 30,000 smallholder farmers have improved access to finance with targeted products for women and youth. The Table below summarises the key products, approaches, and implementation approaches of the planned R-CGS.

RK-FINFA Rural Credit Guarantee Scheme Investment Summary	
Budget allocation and sources	**Total US$ 20 million** - US$ 5 million IFAD PoL[18] - US$ 15 million GoK
Leveraged PFI contributions	US$ 80 million by the PFIs[19]
Objectives	Mitigate real and perceived risk to unlock commercial capital flows into the agribusiness sector MSMEs and smallholder communities.
Managing partner	Hosted by National Treasury; managed by a dedicated unit in NT
Participating FIs	1. Commercial banks as implementers of guarantees 2. MFBs as implementers of guarantees, and as recipients of guaranteed wholesale loans 3. DT-SACCOs as recipients of guaranteed wholesale loans
Investment targets	1. 2,000 MSME medium loans by commercial banks 2. 15,000 small loans by commercial banks, MFBs and DT- SACCOs 3. 30,000 microloans by MFBs and DT-SACCOs
Expected average end-borrower loan size US$[20]	- US$ 30,000 per MSME - US$ 2,000 per small loan - US$ 1,000 per microloan
Maximum end-borrower loan size US$	- US$ 45,000 per MSME - US$ 5,000 per small loan - US$ 1,500 per microloan
Maximum wholesale loan size US$	- US$ 1.000.000 for DT-SACCOs - US$ 2.500.000 for MFBs - US$ 150.000 for value chain finance through SMEs
Maximum loan durations	- 12 months for working capital loans to MSMEs and smallholders - 36 months for capex loans to MSMEs and smallholders - 48 months for wholesale loans to DT-SACCOs and MFBs
Target number of HHs benefit from farm and off-farm employment opportunities by R-CGS	Total 160,000 rural HHs - 100,000 HHs via MSME loans - 30,000 HHs via small loans - 30,000 HHs via microloans
Gender and youth	- 30% of investment targeting youth and women
Environment, Social and Governance	PFIs and Agribusinesses follow agreed Environmental, Social and Governance (ESG) standards and CC risk management systems

The strategy of the RK-FINFA R-CGS is to provide risk sharing coverage to promote rural outreach innovations and leverage commercial investment into the rural and agriculture sector from the portfolios of Kenyan mainstream financial institutions such as Cooperative Bank, National Bank, ABSA Bank, Kenya Commercial Bank and Equity Bank. The target

18 IFAD Programme of Loans i.e., the sovereign lending window, earmarked for micro- and smallholder guarantees
19 The R-CGS will require minimum 4x leverage with guarantees provided. The US$ 80 million PFI investment is an estimation of the market demand. With more demand, additional investment to the guarantee instrument will be sought.
20 The average loan sizes are based on interviews with potential PFIs. These can be adjusted during the implementation, however so that maximum MSME loan is US$ 45.000, maximum small loan US$ 5.000, and maximum microloan US$ 1.500

institutions have a significant liquid resource base and overall strong capacity to deliver banking services, but they have limited risk appetite and limited tools to effectively and in large scale service rural and agriculture sectors.

The R-CGS builds on PROFIT's Risk Sharing Scheme experiences and institution building at the National Treasury (NT). In particular, based on PROFIT lessons, the NT in 2020 institutionalized its guarantee tool by establishment of the public MSME Credit Guarantee Scheme (MSME-CGS). The MSME-CGS is established and regulated through the GoK's Public Finance Management Regulations for the Credit Guarantee Scheme, 2020.[21]

The MSME-CGS at its start-up received initial 14 applications from commercial banks interested to participate in the scheme. To date, seven banks have been approved to participate[22]. The GoK invested KES 3 billion (US$ 27.6 million) in the scheme in 2021 and has confirmed to invest another KES 2 billion (US$ 18.4 million) over the coming two years.

The MSME-CGS provides an appropriate overall operation framework, suitable for the RK-FINFA R-CGS. The detailed management guideline attached to this PIM as "Appendix 1: Operational Manual - MSME Credit Guarantee Scheme". Its key features include:

- 50 per cent coverage of potential losses in qualifying MSME loans on a pari-passu basis, with total exposure limit of 25 percent of portfolio and individual loans.
- Four-fold required investment amount by the PFIs against their received allocation of guarantee resources.
- The PFIs use their own credit appraisal systems and criteria, together with CGS eligibility criteria, to select the final borrowers to the scheme.
- Maximum tenor of three years for guaranteed loans, while the expected medium tenor is 18 months. The allocations for loan guarantees can be used for several rounds of investments during the guarantee contract period.
- The targeting of loans includes minimum of 30 percent youth and women and a framework is established to implement and monitor this.
- Transparent information and access by all regulated financial institutions as long as they qualify based on criteria defined in the Operations Manual.
- The guarantee resources invested are deposited and ring-fenced at the Central Bank of Kenya. The guarantee reserve is accessible to PFIs only after possible losses materialise and have been reported and approved.
- In short term, due to the COVID-19 response nature of the scheme, participating banks are not charged any guarantee fees.
- In medium term, the GoK goal is to establish a Credit Guarantee Company, CGC, to which all MSME-CGS operations and available funds will be transferred. The CGC will charge a risk weighted guarantee fee. Due to the COVID-19 crisis, the transfer of resources from the public Credit Guarantee Scheme to the CGC is likely to be delayed.
- A feasibility study and demand assessment has been carried out by the 'Financial Sector Deepening Kenya' as well as the World Bank, pointing to large unaddressed demand for financing of MSMEs and the feasibility of CGS tool especially in targeting women and youth.

The RK-FINFA R-CGS is established as a special rural window of the GoK MSME-CGS, with investment resources as follows:

- IFAD RK-FINFA loan, US$ 5 million,
- GoK's PROFIT reflows, US$ 7.5 million
- Earmarked rural allocation from the GoK MSME-CGS overall budget, US$ 7.5 million

21 https://www.treasury.go.ke/publications/regulations/category/71-pfm-regulations.html?download=1134:public-finance-management-credit-guarantee-scheme-regulations-2020-1-2

22 NT invited applications from 39 banks across all tiers. The final set of seven banks that qualified consists of only Tier 1 and Tier 3 banks

The total R-CGS investment amount of US$ 20 million is based on expected demand from the banking sector. At RK-FINFA MTR, the level of R-CGS utilization and expected remaining demand during the project period are assessed. If demand is higher than resources available, additional financing will be sought by IFAD and GoK to increase the R-CGS outreach. In case of expected under-utilization of the allocation, the reserved guarantee amount can be reduced and reallocated to other RK-FINFA instruments.

The R-CGS investment of US$ 20 million, with the aligned TSIS, is expected to leverage US$ 80 million of commercial financing to rural clients. This is based on the established Credit Guarantee Scheme, with requirement of 4-time leverage amount by Participating Financial Institutions. This in turn is based on and in line with the achieved result by IFAD's PROFIT: the guarantees of USD 6.9 million leveraged USD 32.2 million of bank investments, which equals 4.7-time leverage.

The leveraged amount includes, in particular (i) about US$ 40 million to SME agribusinesses that lead, sustain, and develop smallholder-inclusive value chains, and that provide employment for rural people including women and youth, and (ii) about US$ 40 million to Smallholder communities and micro-agribusinesses in the rural areas, providing livelihoods and employment opportunities in small-scale.

To enable these rural investments through the public guarantee scheme, it has been agreed with the National Treasury that selected aspects of the MSME-CGS regulations are adjusted to allow efficient functioning of the special rural window. The adjustments are established and regulated by "The R-CGS Addendum of the MSME-CGS Operational Manual", a draft of which is provided in the next 3 pages.

The R-CGS Addendum of the MSME-CGS Operational Manual

Draft version, May 2021, prepared by the IFAD/GoK RK-FINFA design mission

The purpose of this Addendum is to adjust the MSME Credit Guarantee Scheme (MSME-CGS) of the Government of Kenya for the implementation of that part of the MSME-CGS resources which is exclusively earmarked for rural areas. This part of the MSME-CGS is here called the "Rural CGS" or "R-CGS".

This Addendum is in particular made in reference to the documents establishing and guiding the MSME-CGS:

- Government of Kenya Public Finance Management Regulations for the Credit Guarantee Scheme, 2020
- MSME-CGS Operational Manual, Government of Kenya, 2020

The Addendum

The R-CGS resources are ring-fenced and exclusively target rural productive investment loans. This is achieved by three types of Guaranteed Investments with special conditions as described below.

Investment type 1. Wholesale lending to prudentially regulated SACCOs and MFBs will qualify for R-CGS guarantee coverage. The aim is to mobilize funding from existing resources in the Kenyan financial system, through the SACCOs and MFBs, towards small scale rural productive investments, with the following conditions:

- The guaranteed wholesale lending is provided by the financial institutions registered as Implementing Financial Institution of the R-CGS
- The eligible loan recipients for the guaranteed wholesale loans are registered Kenyan rural DT-SACCOs and MFBs, under prudent supervision of SASRA and CBK, respectively
- The maximum R-CGS guaranteed loan amount to the DT-SACCOs is US$ 1,000,000
- The maximum R-CGS guaranteed loan amount to the MFBs is US$ 2,500,000
- The maximum R-CGS guaranteed loan amount duration is 48 months
- The R-CGS Implementing Financial Institutions use their own credit appraisal systems and criteria for the FI-to-FI transactions, including for (i) the conditions of the wholesale loans, and (ii) the selection criteria for the wholesale lending targets
- In case of default of a DT-SACCO or MFB to pay back the loan to the wholesale originating financial institution (R-CGS Implementing FI), the R-CGS covers losses per the standard conditions as described in the MSME-CGS Operational Manual

The utilization of the wholesale resources by the rural DT-SACCOs and MFBs is earmarked exclusively for productive rural loans. The DT-SACCOs and MFBs utilize their own standard credit appraisal systems and criteria for the on-lending of the borrowed resources. The DT-SACCOs and MFBs cover the risk exposure of these loans per their normal business

practice. These end-client-loans are not under the coverage of the R-CGS: If end-clients fail to repay back to the DT-SACCO/MFB, the losses are covered by the DT-SACCO/MFB, and these losses are not covered by the guarantee.

The DT-SACCOs and MFBs report back to the wholesale lender on the details of their loan portfolio with the resources through the loan. The wholesale lender (implementing FI of the R-CGS) aggregates and reports the information back to the R-CGS. The monitoring information includes:

- Number of end-client loans, number of new clients
- Locations and types of end-clients: women, youth, MSMEs, smallholder farmers
- Sizes of loans: maximum, minimum, average
- Loan performance: updates of reflows and NPL %
- Accounts of re-utilization of the wholesale loan resources
- The total amount of DT-SACCO and MFB on-lending to end borrowers as a result of and based on the R-CGS wholesale loan.

During the 5 years of RK-FINFA project implementation, the Participating Financial Institutions (including both the wholesale lenders and the wholesale borrowers) in the R-CGS will receive a technical advisory package as described in the IFAD/GoK Project Design Report of RK-FINFA Component 1. Furthermore, the client pipeline of the DT-SACCOs and MFBs also receive TA.

Investment type 2: Value Chain Financing. The loan recipient Agribusiness-SMEs on-lend their borrowed funds in full to their network of supplier smallholders, by special conditions as follows:

- The R-CGS Implementing Financial Institutions use their own credit appraisal systems and criteria for the conditions and selection criteria for lending targets
- Larger maximum loan amount of US$ 150.000 is applied for SME-agribusiness-led Value Chain Financing (VCF) operations
- The VCF investment amount is exclusively and fully utilized for input loans to supplier smallholders
- The maximum VCF operation end-client loan size is US$ 1,500
- The VCF loan duration is for one farming season, tailored for each VCF operation, and extended at the beginning of the crop cycle
- The SME-Agribusinesses are responsible for the organization of the supplier smallholder investments
- The SME-Agribusinesses carry the full risk of the smallholder input loans and are alone responsible for the loan repayment back to the Financial Institution. If smallholder farmer network members fail to repay back to the SME, the losses are covered by the SME.

The SME-Agribusinesses report back to the Financial Institution on the details of their portfolio of input material loans to smallholders, covering the full amount of guaranteed loan resources. The Financial Institution aggregates and reports the information back to the R-CGS. The monitoring information includes:

- Number of input material loans
- Types of end-clients: women, youth, average/max/min farm sizes

- Sizes of loans: maximum, minimum, average
- Loan performance: updates of reflows and NPL %
- The total amount of VCF on-lending to end borrowers.

Investment type 3. Direct lending to Rural MSMEs and farmers is promoted by:

- RK-FINFA project provides technical assistance services to the PFIs, MSMEs and smallholder farmers that participate (or in pipeline to participate) in the scheme.
- The R-CGS Implementing Financial Institutions use their own credit appraisal systems and criteria for the conditions and selection criteria for lending targets.
- Direct Microloans below US$ 1,500, from the Guarantee Implementing FI to agriculture microenterprises and smallholder farmers, can be included into the scheme with a district-level farm registration (the most appropriate institutional solution to be further discussed with the GoK)
- The direct loans above US$ 1,500, from the Guarantee Implementing FI to agriculture microenterprises and smallholder farmers, apply the same overall criteria as described in the GoK MSME-CGS Operating Manual.

All the conditions of the GoK MSME-CGS Operating Manual apply to the R-CGS operations, except for the points described above under Investment types 1, 2 and 3.

Guidelines for Green Financing Facility Implementation (GFF)

PURPOSE AND DESCRIPTION OF THE GFF OPERATIONAL MECHANISM

RK-FINFA supports the target of the innovative and sustainable transformation of Kenyan rural economy through the operations and services of the Green Financing Facility (GFF), to be established with the RK-FINFA support. The GFF will contribute to the sustainable rural transformation, growth, and income generation through two fully interlinked methods: (a) alleviating the liquidity constraints of non-bank financial institutions that are the main financial service providers for smallholders and rural micro-enterprises, and (b) encouraging small-scale farmers and micro-firms to invest in climate-smart and environmentally friendly activities.

Purpose 1: Alleviating Liquidity Constraint

Aggregate data on Kenyan economy shows that there is adequate liquidity in the financial system, but this masks significant liquidity concentration and the uneven distribution of liquidity among different types of FIs. In a particularly weak position are non-bank financial institutions serving the smallholders and rural MSMEs: the SACCOs and MFBs/MFIs with a large rural low-income clientele. In addition to limited deposit bases, their capacity to borrow on-lending funds from liquid commercial banks remains weak, as the banks actively seek safer investment opportunities. The situation has sharply deteriorated due to COVID-19 related shocks, rendering most rural SACCOs and MFIs increasingly vulnerable and liquidity-constrained to continue their lending to their largely informal rural clientele.

The GFF will be established as a permanent facility to provide wholesale capital to rural oriented SACCOs and MFBs/MFIs, for on-lending to the smallholder sub-sector and rural micro-enterprises. The RK-FINFA budget will provide the start-up capital for the wholesale operations. On the medium term, a key target is to pro-actively increase the capital base of the GFF through additional investments (grants or loans) by other development-oriented financiers with a green agenda, to achieve larger GFF outreach and impact. During the RK-FINFA design process, various potential candidates to support the scaling up of the GFF operations have been identified (see more below).

The GFF will be hosted in a registered financial institution that best meets the eligibility criteria for the host institution as defined in (a) the PIM of RK-FINFA and (b) the GoK regulations concerning the on-lending of public funds. A number of leading commercial banks (including the Co-operative Bank, Equity Bank, and ABSA) as well as the government-owned AFC[23] have expressed their tentative interest to host the GFF, as the GFF objectives are in line with their own development vision. The selection of the Host Institution will be finalised after the approval of the RK-FINFA financing package by the GoK and IFAD.

The wholesale borrowers from the Host Institution using the RK-FINFA GFF finances will be the regulated non-bank financial institutions serving the key RF-FINFA target clientele, the smallholders and rural micro-enterprises. The final borrowers benefiting from the GFF funding would be the rural clients of the SACCOs and MFBs that meet the key requirements agreed for the RK-FINFA beneficiaries, the smallholders and rural micro-firms. In the PIM of RK-FINFA, the beneficiary/client profiles of the project are described in detail. In addition to the increased rural finance outreach to this underserviced group, the key transformative element of the intervention is the targeting of the investments with GFF funding to the climate-smart productive projects of the borrowers.

Purpose 2: Rural Transformation through GFF Green Financing

While the general understanding of the importance of environmental issues and the impacts of climate change has improved in recent years in Kenya, environmentally friendly and

23 In the case of AFC, a potential constraint for its role as a GFF Host can be that it does not operate under the supervision/regulation of the Central Bank of Kenya. To attract additional investments to the GFF, some key international investors consider central bank supervision as a required condition for their investments.

innovative climate resilient options and related investments are often overlooked due to the perception of higher upfront capital costs and the longer-term nature of realising the tangible benefits and higher incomes., as well as limitations in knowledge of existing options and technologies. To achieve faster progress in this area, the traditional knowledge applied in rural areas should be complemented with scientific knowledge to achieve the desired climate resilient livelihoods and a sustainable natural resource base. Existing Government policies and national plans strongly support greener pathways in rural development, and the updated Nationally Determined Contributions include actions such as the enhancement of energy and resource efficiency; clean efficient and sustainable energy technologies; low-carbon and efficient transportation systems; and climate smart agriculture as priorities for climate change mitigation.

The GFF will focus on green investments and target its wholesale loans to PFIs for financing activities and projects in climate change adaptation/mitigation, improved environmental management, and improved efficiencies in the use of natural resources (see types of eligible activities/projects below). The GFF terms of additional liquidity for projects of these types will enable the provision of loans at more client-friendly terms particularly concerning the terms of repayment, including longer loan duration and appropriate grace periods.

Discussions with the key potential wholesale borrowers of the GFF indicated strong future demand for capital for innovative green investments. First, leading MFBs consider green financing as a key strategy in their future operations, and they already are offering green products to their clients, including environmentally friendly and climate change adaptation/mitigation technologies such as water harvesting/storage, irrigation, agricultural insurance, and clean/renewable energy. Special attention will be given to investments that result in GHG emission reductions and those that have potential to generate carbon credits. The GFF will provide additional TA and financial resources for these institutions to develop the green segments of their portfolios, together with focused RK-FINFA technical support for green strategy and product development.

Second, rural oriented DT-SACCOs also expressed interest to finance sustainable, green agricultural and rural activities but their development level in this area is lower than in the case of MFBs, requiring major TA investments under Component 1.

As a part of Component 1, a key technical support intervention is to:

- Improve the capacity of the targeted SACCOs in product development and systems to pro-actively offer green products to their clients
- Promote the awareness of their clients of sustainable, green technologies and their ability to develop business plans and bankable proposal for their investments in areas covered by the GFF funding. These actions will speed up the demand for green finance products offered with the GFF-support.

Through RK-FINFA, IFAD and the GoK will provide the initial investment capital for the GFF. Discussions during the project design process indicated substantial interest from other financiers to provide additional resources (both capital and TA) for this innovative green finance operation. These include Green Climate Fund's Private Sector Facility, European Investment Bank, KFW, potential bilateral partners as well as various UN funded programmes in Kenya. The success in attracting additional resources from these and other sources will be one of the parameters against which the success of the RK-FINFA and GFF management will be measured as the implementation of the GFF scheme progresses. The Non-Sovereign Operations window of IFAD can serve as entry points to create a private sector window into the GFF with the condition that a private sector financial institution will be identified as GFF host institution.

SELECTION OF GFF HOST INSTITUTION

At the RK-FINFA start-up, the PMU and the National Treasury, in close coordination with IFAD and with inputs from the supervisory authorities, will select the Host Institution for the GFF. The Host institution will be a commercial bank or a government-owned development bank. The Host Institution has to meet the general conditions concerning its financial and operational status as well as Special Conditions concerning its experience and qualifications in rural finance.

The General Conditions include:

(a) **License -** the financial institution needs to be properly licensed.

(b) **Good governance – 'fit and proper' owners**; adequate Board composition and practices; adequate organization and institutional capacity for its specific risk profile; existence and effectiveness of business- and risk-related committees (such as Assets/Liability Management Committee, Risk Committees, Credit Committees, Audit Committee, and so on) operating with adequate policies and procedures; competent management with adequate managerial autonomy; business strategy aligned with the financial intermediary's size and management experience.

(c) **Good standing with the supervisor -** compliance with the supervisory authorities' prudential regulations and other applicable laws and regulations.

(d) **Capital adequacy** - good capital structure and compliance with risk-based capital adequacy requirements; positive trend adequate for the financial intermediary's growth perspectives and risk characteristics of new business initiatives.

(e) **Adequate liquidity and effective asset/liability management** - liquidity meeting the supervisory authorities' regulations and financial intermediary's needs with effective liquidity management practices. Good funding structure without heavy concentration and capacity to mobilize domestic resources. Adequate contingency planning for funding to meet unanticipated events or periods of excess liquidity.

(f) **Adequate profitability** - the bank must have positive profitability with well diversified and stable earnings trend and acceptable risk profile. It must maintain the value of its capital. Level and growth trends of operating costs and expenses should be well managed.

(g) **Adequately managed financial and operational risks** - financial and operational risk management functions should be well organized; the bank must have well-defined and prudent policies and written procedures for *management of all types of financial risks* (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures) *and operational risk*; exposure to interest rate risk, currency risk, and market risk at the instrument, portfolio, and balance sheet levels within risk limits and well managed.

(h) **Good asset structure and portfolio quality -** Good asset structure including type, concentration, liquidity, and diversification; effectiveness of loan/finance underwriting and the related policies, procedures, and practices; lending to/financing connected parties; asset classification and provisioning practices; level, distribution, and severity of classified assets and timely identification and collection of problem assets.

(i) **Adequate internal audit function**, including organization of internal audit and compliance functions; internal audit policies, procedures, and practices; annual audit planning and execution, ensuring that all risk areas are examined and that those areas of greatest risk receive priority; reporting requirements to senior management and Board; quality of reporting and responsiveness to audit suggestions, recommendations, or requirements; follow up on any noted issues.

(j) **Adequate IT and Management Information Systems (MIS),** and openness to experiment with technology-based credit assessment and distribution approaches.

(k) **Established Environmental and Social Management System** – the Host Bank will have an ESMS through which it will be able to monitor the environmental and social sustainability, as well as resilience to climate change, of borrowers' activities. It will therefore assign qualified environmental and social personnel to oversee that ESMS is implemented and key requirements are met. The bank will have the capacity to support its GFF wholesale borrowers (PFIs) in the establishment of ESMS procedures appropriate to the nature and level of risk of the activities to be financed.

The Special Conditions for the GFF operation include:

(a) Experience to act as a host to credit line-based wholesale lending operations with donor funding

(b) Experience and competence in the assessment of the performance and non-bank financial institutions as the bank’s borrowing clients

(c) Overall experience in in financing rural and agricultural clients, including particularly the smallholders and rural micro-enterprises

(d) Adequate MIS systems to collect and aggregate information from various borrowing SACCOs and MFBs into comprehensive reports at the total GFF scheme level

(e) Capacity to proactively participate in fundraising efforts to increase the volumes and impact of the GFF.

The Preparation for the GFF Host Institution selection will start immediately after the IFAD and GoK financing to support RK-FINFA has been approved. After receiving the formal Expressions of Interest (EoI) by the banks, the PMU, with IFAD support and inputs from the supervisory authorities, would organise a due diligence process to identify the best candidate. IFAD’s No Objection would be required for the final selection of the Host Institution.

The selection of the GFF Host, The National Treasury will enter into Financing Agreement with the GFF Host. The Financing Agreement will be denominated in KES. From the subsequent fund transfers by the NT to Host Institution, the Host on-lends the GFF funds in wholesale tranches to SACCOs and MFBs. From these financing tranches, the SACCOs and MFBs would on-lend the funds to final borrowers, the smallholders and micro-enterprises, for viable projects that meet the green financing eligible criteria of the GFF (see more below on final borrower eligibility criteria).

After signing the Financing Agreement with the NT, the Host Institution and the PMU will inform the candidate wholesale borrower institutions, the MFBs and SACCOs with rural orientation, about the services of the new GFF. The achieve adequate coverage, IT-based media as well as cooperative and microfinance apex organisation channels would be actively utilised to reach the targeted MFBs and SACCOs.

GFF WHOLESALE BORROWERS

The wholesale borrowers from the Host Institution using the RK-FINFA GFF finances will be the regulated non-bank financial institutions serving the key RF-FINFA target clientele This financial service market consists of two key segments. First, the deposit-taking SACCOs (regulated by SASRA), particularly the 49 farmer-based DT-SACCOs that nationally serve around 2.25 million smallholder households. In addition, there are many employee-based SACCOs that systematically provide credit facilities to farmers and other rural enterprises and would qualify for GFF wholesale loans if they direct the received GFF funding to smallholders. Second, the microfinance banks (regulated by the Central Bank), serving large rural client networks nationwide and in many cases targeting particularly low-income women with their financial services. The largest MFB alone serves 600,000 female clients through over 230 outlets, and also other MFBs have a strong gender orientation with large female clienteles.

When the GFF operations mature and its capital base grows, the increase in the number of wholesale borrowers from the GFF will be pro-actively promoted through (a) actions and policies to increase the number of regulated SACCOs and MFBs in Kenya and (b) the inclusion of well-managed (but not regulated) credit-only MFIs into the scheme. RK-FINFA support to speed up these institutional development processes will be provided under Sub-component 3.1. The key support initiatives under that sub-component that directly involve/benefit the GFF Host and its wholesale borrowers include:

- Development of a regulatory and supportive framework for allocation of affordable resources to green finance investments by FIs including banks, MFBs and SACCOs
- Support to regulations and actions to include the larger non-deposit taking SACCOs and the SACCOs with digital service platforms under the regulation and supervision of SASRA (which would qualify them as candidates as wholesale borrowers from Green Financing Facility)

- Support the modifications of regulations to encourage well-managed credit-only MFIs to seek for an MFB status or to enter otherwise under the effective supervision by the Central Bank (which would qualify them as candidates as wholesale borrowers from Green Financing Facility).

  The Host Institution will process each wholesale tranche-based loan application from MFBs and SACCOs based on (a) its institutional assessment of the strength of the borrowing institution and (a) the assessment of the capacity of the borrowing institution to reach the RK-FINFA target group(s) with their green products. The tranches can be issued for a maximum period of 5 years and within that period, the MFB or SACCOs can revolve the recovered funds into new green loans to ultimate borrowers. At the Host Institution level, recovered funds from the borrowing MFBs and SACCOs are also revolved as new wholesale loans. In cases, in which an MBF or a SACCO cannot effectively on-lend the borrowed GFF tranches, the Host Institution can call back the idle GFF tranches before the loan repayment date and issue them as new wholesale loans.

  The MFBs and SACCOs that effectively use the borrowed GFF funds can apply for new additional tranche-capital from the Host Institution to increase its green portfolio, even before the earlier tranches have reached their full maturity. The total borrowing limit for one MFB or SACCO is 20% of the total GFF on-lending capital (at the project start-up, this maximum is US$ 3 million, or 20 per cent of the total capital of UD$ 15 million).

ELIGIBLE ACTIVITIES FOR GFF FINANCING

The GFF will finance on green rural investments by the target group of RK-FINFA. The Host Institution will target its wholesale loans to FIs for financing activities and projects in climate change adaptation/mitigation, improved environmental management, and improved efficiencies in the use of natural resources. Within the overall context of green rural and smallholder agricultural development, smallholder and microenterprise investments that qualify for GFF lending would include, but are not limited to:

- Efficient water use such as drip irrigation/sprinkler or micro-jet systems
- Flood protection measures both physical and biophysical
- Climate resilient infrastructure/increased robustness of infrastructure
- Climate smart farming including drought or flood tolerant inputs
- Soil and water conservation measures
- Renewable energy and energy efficient systems
- Water harvesting/water storage systems
- Agro-forestry and afforestation/reforestation
- Reduction of post-harvest food losses
- Rural insurance products, and
- Cleaner transport solutions.

As the GFF is a new type of support instrument in Kenya aiming at mainstream green financing operations in the rural financial sector, the eligible loan purpose of its investments is expected to develop and evolve as the scheme operations mature. Therefore, the NT, IFAD and the GFF host institution can propose justified changes and additions to the eligibility criteria of the GFF-funded loans for the RK-FINFA Steering Committee approval as experiences on GFF scheme performance accumulate.

KEY GFF FINANCING TERMS AND CONDITIONS

The draft key GFF loan terms to final borrowers (smallholders and micro-firms) are presented in the table below.

RK FINFA – Rural Investment Instruments to Final Borrowers

	Green Financing Facility (GFF)
RK-FINFA budget allocation and sources	**Total US$ 15 million** - US$ 10 million IFAD PoL - US$ 5 million GoK
Leveraged PFI contributions	US$ 5 million by the PFIs, or 25% of each end borrower loan
Objectives	Provide dedicated liquidity to accelerate green agricultural and rural investment products of Microfinance Banks and SACCOs that face liquidity challenges
Managing partner	Hosted and managed by a financial institution
Projected Participating FIs	4 MFBs and 20 SACCOs
Sizes of financed green products	Micro loans: US$ 70 to US$ 1,500 Small loans: US$ 1,500 to US$ 5,000
Expected average loan size US$	- US$ 2,000 per small loan - US$ 1,000 per microloan
Maximum loan duration	Micro loans: 18 months Small loans: 36 months
Grace period	6 months all loans
Repayment Terms	Interest monthly/quarterly, principal monthly/quarterly after grace period
Projected share of the value of GFF-financed loans	Micro loans 50%, small loans 50%
Repayment Terms	Interest monthly/quarterly, principal monthly/quarterly after grace period
Interest rate	To be determined by the MFBs and SACCOs
Investment targets	- 7,500 small loans - 15,000 microloans
Expected average loan size US$	- US$ 2,000 per small loan - US$ 1,000 per microloan
Number of HHs benefit from farm and off-farm employment opportunities	Total 30,000 rural HHs - 15,000 HHs via small loans - 15,000 HHs via microloans
Gender and youth inclusion targets	- 50% of investment targeting women - 30% of investment targeting youth
Environment, Social and Governance	MFBs and SACCOs follow agreed Environmental, Social and Governance standards framework. The MSMEs and smallholders implement climate smart solutions.

Both at the Host Institution and the MFB/SACCO level, the GFF operation would be based on effective revolving of the repaid capital back to new GFF-financed loans, to achieve maximum outreach and impact. The long-term (maximum 5 years) tranche-based GFF disbursements by the Host Institution will allow the MFBs ad SACCOs to apply longer than their standard loan and grace periods when issuing working capital and investment loans to their clients. This will be particularly important to support the post COVID-19 recovery efforts at small farms and in micro-firms.

The GFF financing will cover 75% of each loan by an MFB or a SACCO that will be issued to an eligible borrower and loan purpose. The PFI will provide the remaining 25% as its own commitment from its own funds. The PFIs will carry the full credit risk of the GFF loans to final borrowers and will use their own credit appraisal systems and criteria, together with GFF eligibility criteria, to select the final borrowers to the scheme. With the low price of capital provided by the NT to the Host Institution, reflecting the low cost of IFAD financing, the MFBs/SACCOs are expected to apply interest rates that are at the low end of the institution's interest rate scale for each type of a loan. In addition, PFIs are expected to publicly disclose the average interest rates they charge on the GFF-funded loans, to support clients' comparisons of the terms offered.

To ensure a smooth start-up of the GFF operations after the project effectiveness, a recommended start-up rule would be that during the core PFI and beneficiary capacity building period covering Project Years 1 and 2, a minimum of 50% of the GFF-funded investments in each PFI is used for eligible green investments as defined in this PIM and the GFF Operations Manual to be produced before the scheme operations start. The rest of the issued GFF tranches can be used for other bankable income generating investments of the RK-FINFA target group. After Project Year 2, all the GFF financed investments, including the capital from both the GFF repayment reflows and the new GFF tranches, need to be 100% in the green category. Following the IFAD and GoK mainstreaming policies, a minimum of the 50% of the issued loans at the GFF scheme level have to be for women and a minimum of 30% for youth farmers and entrepreneurs.

With these terms and the seed capital allocation from RK-FINFA, the GFF is projected during the project implementation to provide period green financing support to over 30,000 rural households. The NT, IFAD and the GFF host institution can propose justified changes to the GFF-funded loan terms for the RK-FINFA Steering Committee approval as experiences on GFF scheme performance accumulate.

GFF MONITORING, REPORTING AND EVALUATION

Effective monitoring and accurate reporting will be critical for the success of the GFF scheme. The improvement of the MIS systems of the participating MFBs and SACCOs is a core target function of Component 1 technical support activities. Most of the required performance reporting data, including all standard portfolio indicators, will be automatically available from the IT-based accounting/management information systems of the CBK or SASRA-regulated MFBs and SACCOs. This data will be electronically submitted by them to the GFF Host, which will aggregate it to be able to periodically present the whole scheme level data to the NT/PMU. The reported information will include detailed data on portfolio indicators such as the gender, age and location of the borrower, loan purpose, loan disbursements and outstanding balances, as well as the repayment performance for each of the above categories.

The estimation of the development impact of the R-CGS and GFF interventions on supported projects, including the smallholder households, will be surveyed by the RK-FINFA through specific, sample-based baseline studies and then through repeat studies after the supported projects/investments are fully implemented. Experts from IFAD will support in the organising of these impact surveys, based on successful methods used in similar type of operations in other countries of the region.

DETAILED IMPLEMENTATION MODALITIES: SUB-COMPONENT 3.1: SUPPORT TO RURAL FINANCE OPERATIONAL ENVIRONMENT

Objective and Structure of Intervention

The purpose of Sub-component 3.1 activities is to promote the creation of a conducive policy and institutional environment for increased rural financial intermediation, to support rural and agriculture transformation in Kenya. For the design of this sub-component, it is important to note that the main investment components of RK-FINFA (Components 1 and 2) specifically aim at supporting or creating economic policy instruments and facilities that aim to increase rural financial intermediation by commercial banks, SACCOs and MFBs/MFIs. Therefore, for a focused RK-FINFA approach, the relatively limited project resources allocated to Sub-component 3.1 will largely be directed to the development of institutional arrangements that support the medium and longer-term development of a more conducive operational environment for the Rural Credit Guarantee Scheme and the Green Financing Facility, to improve rural financial intermediation through their increased outreach and impact.

Implementation Focus and Approach

Focused Support Topics. RK-FINFA will pro-actively participate in and contribute to the development of the selected policies, regulations and development plans that affect the future implementation, results, and impact of the project. Based on the policy gap analysis performed through discussions with the National Treasury and other key project stakeholders, the supported topics are planned to include the following RK-FINFA-related themes that are considered to be critically important for the widening of rural financial intermediation in Kenya:

- Finalisation of the addendum to the regulations of the current interim phase of the GoK's MSME Credit Guarantee Scheme. Planned key partners: Treasury, FSD-K. Time: Q3/2022.
- Development of a regulatory and supportive framework for allocation of affordable resources to green finance investments by FIs including banks, MFBs and SACCOs. Planned key partners: Treasury, CBK, FSD-K. Time: Q2/2023.
- Support to the design of the regulations and rules of the rural window of the planned credit guarantee company to take over from the NT-operated MSME-CGS. Planned key partners: Treasury, WB, USAID, FSD-K. Time: Q4/2024.
- Support the inclusion of additional SACCOs under the regulation and supervision of SASRA (which would qualify them as candidates as wholesale borrowers from the GFF). Planned key partners: SASRA, CBK, Treasury, AGRA, FSD-K. Time: Q2/2025.
- Modify regulations to enable well-managed credit-only MFIs to seek for an MFB status (which would qualify them as candidates as wholesale borrowers from the GFF). Planned key partners: CBK, Treasury, FSD-K. Time: Q2/2025.
- Support to policies and action plans for increased registration of rural MSMEs to improve their access to bank loans and guarantees. Planned key partners: Treasury, AGRA, Ministry of Industry, Trade and Enterprise Development. Time: Q2/2025.
- Support a review of agricultural insurance operations and their regulatory status in Kenya, as a preparation for effective agricultural insurance arrangements. Planned key partners: Treasury, FSD-K. Time: Q2/2025.

Implementation Method. Sub-component 3.1 will managed and operated by the co-investing Policy Component Implementation Partner, to be selected from among the specialized non-government sector actors in Kenya, under the oversight of the PMU. In the actual activity implementation, the Partner will use either its own experts or contract external consultants/companies when required. The Partner will also ensure that the Sub-component 3.1 activities are fully integrated with and provide support to the progress of the key investment instruments of RK-FINFA, the rural credit guarantee scheme and the Green Financing Facility.

Key Tasks of Policy Component Implementation Partner

At the RK-FINFA start-up, the NT and the Policy Component Implementation Partner will negotiate and sign an MoU on the role and responsibilities of the Implementation Partner in the RK-FINFA Sub-component 3.1 implementation. The MoU will include a financing framework for the whole 6-year project period. It will also include a financing plan for the activity, indicating the annual financing shares of the GoK/IFAD and the Implementing Partner.

The finalisation of the focused activity plan for Sub-component 3.1 and the selection of the core support areas will be completed after receiving a detailed proposal (including a confirmed co-financing budget) from a pre-selected Policy Component Implementation Partner candidate. Under the arrangement agreed during the final RK-FINFA design, the tasks of the co-investing Policy Component Implementing Partner are planned to include the following:

- Plan, manage and coordinate, under the oversight of the PMU, the successful implementation of the Sub-components 3.1 policy promotion activities in support of the rural finance operational environment in Kenya
- Design and agree with the NT an overall framework plan for the implementation approach of the Sub-component 3.1 activities over the 6-year RK-FINFA project period, with adequate room for flexibility to allow new themes to be included in policy support work as the rural finance market evolves
- Prepare the first AWPB for Sub-component 3.1 based on the on the policy gap analysis performed during the RK-FINFA design, with detailed activity plans and resource allocations
- Prepare, based on progress achieved and experience gained, the subsequent AWPBs for the sub-component and present them to the PMU for including in the RK-FINFA AWPBs
- Allocate appropriate and adequate specialist resources required for the successful Sub-component 3.1 implementation from the own resources of the Implementation Partner
- Contract, through procurement procedures agreed with the NT/IFAD/PMU, the required additional, external expert resources through market-based bidding to support the effective implementation of the planned activities
- Organise, in co-operation with the PMU and other stakeholders, the workshops and review events required for the successful implementation for the policy support activities
- Organise the appropriate knowledge management activities and events to share the outcomes of the policy support work with the financial sector and the wider public, including the development networks of the UN and other external partners of RK-FINFA
- Report to the PMU on the progress of the Sub-components 3.1 implementation based on reporting requirements agreed on in the MoU between the NT and the Implementing Partner
- Conduct the accounting and financial management tasks related to Sub-component 3.1 implementation according to the FM rules and procedures agreed for RK-FINFA (see RK-FINFA draft FM Guidelines in this PIM)
- Support the RK-FINFA Implementation Support and Supervision missions and other agreed RK-FINFA missions and evaluations in their work concerning the progress of Sub-component 3.1
- Focus the support work of all the core activities of Sub-component 3.1 towards effective and innovative rural finance policy and institutional solutions that would support the successful implementation of the rural credit guarantee operations of R-CGS and the green financing

operations of the GFF and the scaling up of the outreach and impact of these RK-FINFA supported rural finance support instruments.

PLANNING AND M&E PROCESS

The logframe of RK-FINFA (Annex 1 of the PDR) will guide the development of work plans and budgets for the project. Planning and budgeting will be integrated in the GoK processes and cycles and will be based on AWPBs. These, together with the logframe's quantified results-based indicators and RK-FINFA's MIS database, will provide the primary basis for monitoring the RK-FINFA progress. At the project start-up, the PMU will update the Logical Framework and based on that, develop the first AWPB. Thereafter, the PMU will prepare each year a consolidated AWPB based on the principles of results-based planning. Subsequent AWPB processes will offer the opportunities to the PMU to reflect on lessons from the implementation experience of the previous years, and to propose activities and expenditures required to achieve the intended project outcomes. The Project will have the possibility of revising the AWPB at any time of the year, and any proposed adjustments will require approvals by both the GoK and IFAD.

RK-FINFA will develop a robust M&E system in compliance with IFAD's Core indicator framework and the GoZ requirements. The RK-FINFA M&E system will (i) collect, analyse, and update information based on the COI outcome surveys at baseline, midterm and completion; (ii) support PMU and the Steering Committee in planning and making informed decisions on project strategies and actions; (iii) maintain and strengthen strategic partnerships with stakeholders; and (iv) create opportunities for learning and sharing results. The system will be participatory, gender sensitive and results-oriented while enabling the integration of physical and financial progress reporting. In addition, the system will enable the analysis of climate change vulnerability among the beneficiaries. The project M&E will be anchored to the Country's National Integrated Monitoring and Evaluation System (NIMES) that tracks implementation of policies, programmes, and projects in the country. It will also be anchored to the monitoring and evaluation system that is being developed for the Credit Guarantee Scheme and the GFF to track the performance and impact of these operations.

The RK-FINFA M&E system will be participatory, gender sensitive and results-oriented while enabling the integration of physical and financial progress reporting. In addition, the system will enable the analysis of climate change vulnerability among the beneficiaries. It will incorporate in-depth baseline, mid-line and completion surveys, as well as qualitative thematic studies as relevant. To ensure quality and to allow IFAD to aggregate results at corporate level, the baseline, mid-line and completion surveys will align to the IFAD guidelines for the measurement of Core Indicators at Outcome level (the COI guidelines). Data on all people-centred indicators will be collected and analysed disaggregated by age and gender.

Relevant indicators have been specified in the RK-FINFA logframe and, to the extent possible, quantified. The indicators relate to the different levels (output, outcome, and impact) and include IFAD Core Indicators (CIs) as well as project specific indicators. At start-up, the project will develop a glossary of indicators, detailing the exact meaning of each indicator (including CIs) in the specific context of RK-FINFA. The approach is based on the Theory of Change of RK-FINFA (see Annex 2 of the PDR), and demonstrates the logical links between the results at their different levels, thereby enables the meaningful analysis of whether the project is on-track towards its planned results even in the first years of implementation when higher-level results are not yet expected.

The Project will set up a Management Information System (MIS) to facilitate the storage, use and analysis of data. RK-FINFA will promote digitalization the M&E system of the implementing intermediaries and PFIs, including the use of portable electronic devices so as to speed up data entry, cleaning, and reporting at different levels. The project's M&E plan will be refined as part of the first implementation support mission scheduled to take place within the first six months of the programme approval. It will comprise: i) setting up a Management Information System (MIS) to facilitate storage, analysis and use of data; ii) providing clear details on the reporting requirements from different stakeholders; iii) developing standard reporting formats and agreeing on the timeline and modality of reporting from the different implementing partners.

Effective monitoring and accurate reporting will be critical in the R-CGS and GFF schemes, under which the issuing of the client loans is carried out by the selected PFIs. The improvement of the MIS systems of the PFIs is a core target function of Sub-component 1.1 technical support activities. Most of the required performance reporting data will be automatically available from the IT-based accounting/management information systems of the CBK or SASRA-regulated PFIs. This data will be electronically submitted by the PFIs to the NT and GFF Host, which will aggregate it to be able to periodically present the whole scheme level data. The reported information will include detailed data on portfolio indicators such as the gender, age and location of the borrower, loan purpose, loan disbursements and outstanding balances, as well as the repayment performance for each of the above categories. Table below shows the core M&E indicators collected on the R-CGS and the GFF operations and the source of information for each indicator.

No	Information Collected	Source of Information
1	Loan size	PFI
2	Recipient age	PFI
3	Recipient gender	PFI
4	Loan recipient location	PFI
5	Purpose of the loan in application	PFI
6	Loan disbursement	PFI
7	Time it from loan application to loan disbursement to recipient	PFI
8	Actual utilization of the loan	PMU M&E
9	Loan repayment (% paid against target)	PFI
10	Was the recipient trained by the project?	PFII/PMU
11	How was the recipient identified?	PFI
12	Observed outputs	PMU M&E, Impact surveys
13	Observed outcomes	PMU M&E, Impact surveys

The estimation of the development impact of the R-CGS, the GFF and the related capacity building interventions on supported smallholder and micro-enterprise owner households will be surveyed by the RK-FINFA through specific, sample-based baseline studies and then through repeat studies after the supported projects/investments are fully implemented. IFAD Experts will support in organising the impact studies, based on methods used in similar projects in other countries in the region.

KNOWLEDGE MANAGEMENT

The project's KM activities will be guided by a robust KM approach and plan, to improve learning, KM and communication practices within the project. After the project start-up, RK-FINFA will, with support from technical KM experts, develop an effective RK-FINFA Knowledge Management (KM) Strategy. Lessons learnt in implementation will be actively shared between key RK-FINFA stakeholders. Semi-annual review meetings with RK-FINFA staff and implementing partners will be organised by the PMU to discuss progress towards results in relation to each semi-annual progress report, with the focus on lessons learnt in terms of challenges, good practices, etc.

The KM Strategy will have a strong focus on documenting best practices as well as positive and negative lessons from RK-FINFA implementation experience, supported by reliable evidence and analysis. The programme KM plan will promote the key innovations such as experiences in green financing and will be aligned to the policy engagement activities of the project. The wider adoption of RK-FINFA's documented best practices and financing methods will be an important measure of the project's success in knowledge management, especially as RK-FINFA is expected to attract additional funding from other donors and financiers for the two sustainable financing facilities that form the core of the RK-FINFA investment.

A draft RK-FINFA KM Plan is presented at the end of this section of the PIM. It will be further developed after the project start-up, with support from the IFAD KM Specialist.

GRIEVANCE REDRESS MECHANISM

The Grievance Redress Mechanism (GRM) of RK-FINFA will record and address any complaints that may arise during the implementation phase of the project promptly and transparently with no impacts (cost, discrimination) for any reports made by project affected people. The GRM will work within existing legal and cultural frameworks, providing an additional opportunity to resolve grievances at the local level. Complaints at the project level will be recorded on the Grievances Register that will be maintained by the project. Implementing the grievance mechanism and recording all grievances will be the responsibility of the Social Inclusion Specialist in the PMU. A Grievance Redress Committee, comprised by the Social Inclusion Specialist in the PMU, a county level representative and a representative from the PFIs will investigate to check the validity and severity of the grievance and resolve it. Complaints can also be submitted through IFAD's Complaints Procedure that allows individuals and communities to contact IFAD directly and file a complaint if they believe they are or might be adversely affected by an IFAD-funded project/programme not complying with IFAD's Social and Environmental Policies and mandatory aspects of SECAP. Further, the mechanism should implicitly discourage referring matters to the court system for resolution.

Each PFI to be supported through RK-FINFA will be expected to develop grievance redress mechanism of their own, specific to the types of borrowers, adopting local and institution-based mechanisms.

GENDER BASED VIOLENCE AND SEXUAL EXPLOITATION AND ABUSE

In line with IFAD's Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse (2020), RK-FINFA will ensure a safe working environment free of harassment, including sexual harassment, and free of sexual exploitation and abuse (SEA) in its activities and operations. The ESMS for all PFIs will include prevention and mitigation measures for GBV/SEA and PFIs will be bound to ensure that these are applied across their client base.

RK-FINFA Draft Knowledge Management Plan

Knowledge Management: Definition

For the purposes of this strategy, Knowledge Management (KM) is defined as "a set of processes, tools and behaviours that connect and motivate people to generate, use and share good practice, learning and expertise to improve projects' efficiency and development effectiveness".[24]

The present document is a draft plan developed to this end. After the RK-FINFA start-up, this draft should be completed and refined with support from IFAD. The KM strategy and plan will be validated by project stakeholders through a national workshop. The workshop will be an opportunity to refine the thematic focus and dissemination strategy of the KM products, but also to better understand the key information needs for RK-FINFA to succeed.

Knowledge management: Goal, objective and activities

The **overall goal of this KM plan** is to support learning and adaptation for improved RK-FINFA performance. It will also enable RK-FINFA to develop and disseminate knowledge products that can promote wider changes at national and regional levels, as well as the sustainability of project results.

RK-FINFA's KM strategy will aim to adopt a proactive approach to developing knowledge products and learning processes that can be replicated in other similar projects in Kenya and in the region. For this purpose, the KM activities will focus in particular on shedding more light on how to effectively develop rural finance approaches that contribute on a sustainable basis to the increased incomes and improved living standards of rural low-income people.

The **specific objectives** of this KM Plan are:

- To support learning and improved project performance during implementation;
- To raise awareness among people in Kenya on the importance of availability of rural financing to agricultural development and improved rural livelihoods;
- To capture, use and share lessons learned;
- To improve the design of future projects in Kenya and elsewhere based on the lessons learned from RK-FINFA;
- To raise awareness of project activities and results, and publicize successful experiences;
- To boost the project profile among decision makers;
- To engage with and inform rural people about project activities;
- To build a community of stakeholders.

The main **KM activities** will be implemented in three broad action areas: (a) raising awareness on the importance of rural finance for agriculture and rural development; (b) what works and what does not work in rural financing; and (c) promoting RK-FINFA's visibility.

Raising awareness on the importance of rural finance for agriculture and rural development: Given that agriculture is the main contributor to the Kenyan economy and that only 4% of lending go to agriculture, KM efforts will focus on effects of sustained availability of financing resources to the rural poor population. This will be done through regular review workshops and meetings among on-going and future IFAD financed projects and programmes, with staff of counties, national government and implementing partners, to share knowledge and lessons learned on relevant rural finance-related topics.

24 IFAD, 2019

What works and what does not work in rural finance: This will enable the project to build a credible knowledge base of practical and actionable know-how that can be used to better address the challenges of rural finance. Studies will be carried out and briefs prepared focusing on identification of effective incentives and regulatory changes that can increase Kenyan FIs' participation in rural finance. Such incentives and regulatory changes will focus on what works and what does not work in terms of rural finance. Key activities will include development of studies, and production of briefs that highlight project results, key lessons learned, and stories from the field.

Promoting RK-FINFA's visibility: KM activities will aim at promoting RK-FINFA's visibility by developing an RK-FINFA website, Facebook page, and by being active on other relevant social media. The communication plan will be flexible and should be adjusted according to needs as they arise and based on feedback from the beneficiaries.

RK-FINFA Knowledge Management Structure

The implementation of the knowledge management strategy requires strong and visible leadership from the project management team and all PMU staff. It will also require strong partnerships with implementing institutions, co-financing partners and the private financing sector. Each member of the PMU has the responsibility to engage in developing knowledge products, facilitate connections between the field work and the PMU office, and offer technical support to knowledge-sharing and learning.

The KM will be the primary responsibility of the Monitoring and Evaluation Specialist at PMU level. The M&E Specialist will work in close collaboration with the other PMU staff and the implementing partners of RK-FINFA to ensure that:

- M&E findings on project results are widely disseminated in a clear, synthetized, and interesting way;
- Knowledge products are backed up by solid M&E evidence and therefore, the M&E system collects all data necessary for the envisaged knowledge products to be developed;
- Field visits to collect stories are effectively used for triangulating M&E data, and the other way around;
- Stakeholder interviews and surveys will be used to deepen the understanding of factors contributing to successes and failures, and to enable full documentation of the project impact.

SWOT analysis in the KM context

A SWOT analysis is a simple but useful framework for analysing the Strengths, Weaknesses, Opportunities, and Threats that the PMU may encounter, especially when starting new project or undergoing a mid-term evaluation, etc. It can also be used in project planning and eventually evaluation of its activities at various intervals.

This SWOT analysis helps in focusing on the main strengths and leverage them to pursue key opportunities and to avoid threats. The team can also become aware of its weaknesses which might need to be overcome in order to take the greatest possible advantage of potential opportunities available.

Table 1 below shows an example of SWOT analysis for a project of the RK-FINFA type, to be completed/adjusted/completely modified at project start-up and updated during implementation.

Table 1: RK-FINFA KM SWOT analysis

STRENGHTS	OPPORTUNITIES
• Qualified PMU human capital competitively recruited • A good culture of knowledge sharing among IFAD financed projects • A good support system by the PMU staff • Ongoing IFAD financed projects that will provide initial client pipeline and have already ongoing KM activities • Availability of different dissemination tools such as website/Facebook, Instagram, YouTube etc that will enable easy accessibility of KM information • Good M&E system • Presence of partners that support Project implementation.	• Networking with other projects • Exchange of good practices with partners and projects • Focus on youth and women groups and farmer cooperatives, which bring beneficiaries together • Capacity building to broaden beneficiaries understanding.
WEAKNESSES	**THREATS**
• Delay in RK-FINFA execution due to limited interest by FIs • Inadequate resources to support the KM • Low acceptance rate of the beneficiaries to share their story that affect communication activities.	• Beneficiaries fear of borrowing • Limited stakeholder engagement • Beneficiaries' illiteracy.

Stakeholders and Audiences

RK-FINFA KM activities will be differentiated depending on the different audiences they aim to reach. Tables 2 and 3 below are examples of KM stakeholders/audiences and KM products that could be used to reach these. Both these tables are to be completed/adjusted/completely modified at start-up and updated during implementation.

Table 2: RK-FINFA KM Stakeholders

Stakeholders	What do they want/need to know? What do we want to communicate to them?
Local ▪ Beneficiaries ▪ Local communities	▪ Purpose and activities of the project ▪ Opportunities to partner, to participate or to benefit

▪ Project staff ▪ Local offices of government agencies and project partners	▪ Notifications about project events and meetings ▪ Project results and impacts ▪ Experiences of beneficiaries and lending institutions ▪ Relevant lessons learned ▪ Results of successful pilots and trials of new technologies, loan products, etc. ▪ Guidelines and methodologies ▪ Results of studies, surveys and assessments undertaken ▪ Policy-relevant lessons
National ▪ Project partners ▪ Service providers ▪ Financial Institutions ▪ Other similar projects ▪ Government agencies ▪ General public	
International ▪ Donors/financiers ▪ Development agencies ▪ Communities of practice/interest groups ▪ Other projects in other countries and regions ▪ General public ▪ Policy makers	

Table 3. RK-FINFA KM products

Products	What knowledge can they share and with who?
▪ Recorded interviews on beneficiary experiences with the project ▪ Brochures on project outcomes in English and Swahili languages ▪ Community meetings on project experiences, success and challenges	▪ Directed to project beneficiaries aimed at getting feedback on project's activities ▪ Directed to the project's beneficiaries and non-project participants to raise awareness on life changing benefits from accessing rural finance ▪ Aimed to allow the beneficiaries and the community at large to better portray their points of view and produce powerful stories.
▪ Stories from the field ▪ Lessons learned ▪ Project briefs ▪ Policy briefs	▪ Good for sharing information on project activities, results and lessons learned with a wide variety of audiences from participating FIs, beneficiaries to high-level decision makers. ▪ Typically short (a few pages) and not too technical, but with enough detail to be useful or to encourage audience to seek out more information.
▪ Reports and studies ▪ Technical guidelines ▪ Working papers ▪ How-to-do-note	▪ Addressing particular issues in significant detail, normally longer and more analytical and targeted towards audiences with specialist knowledge or interest in the topic.
▪ Inputs to partners publications ▪ Inputs to government policies and strategies	▪ Useful opportunities to put project knowledge into action and to use partners and government resources to leverage its impact and raise awareness of the project.

▪ Articles (newspaper/magazine) ▪ Blog posts ▪ Newsletters ▪ Press releases	▪ Useful for communicating information about project activities and results achieved and reaching a wide general audience. ▪ Newspapers, websites and blogs are normally eager for content and are normally keen to publish interesting stories from projects.
▪ Videos ▪ Photos ▪ Interviews ▪ Infographics ▪ Podcasts	▪ These make great content for the project to disseminate through social media – publishing videos and photos of project activities and outcomes, beneficiaries, field visits etc. online is a good way to attract interest (but make sure you get permission where necessary). Interviews often provide good soundbites for sharing through social media, perhaps together with links to longer articles or publications.
▪ TV spots ▪ Radio sessions	▪ As part of promoting agriculture through local TVs and radio (especially through vernacular channels) will raise awareness and promote behavioural change by FIs in lending to the agriculture sector.

TOOLS

Useful KM tools and templates can be accessed on the IFAD KM Resource Centre, accessible through this link: https://ifadkmcentre.weebly.com/integrating-km-in-projects.html

Table 4 below presents a Template for Knowledge Management action plan, to be completed after the RK-FINFA start-up.

Table 4: Template for Knowledge Management action plan

KM AREA	Activities	OUTCOME	STAKEHOLDERS/ TARGET AUDIENCES	OUTPUT (knowledge products)	DISSEMINATION CHANNELS/EVENTS	RESPONSIBLE	USEFUL /POTENTIAL PARTNERSHIPS	TIMEFRAME	BUDGET
Awareness campaigns	TV and radio	People in rural Kenya are aware of the importance of savings and credit to improve their welfare	TV and radio listeners on a national scale	RK-FINFA stories are broadcasted X times per week for X weeks in X TV and Radio channels	TV (channel X and X); Radio (channel X and X); social media (Facebook; Instagram; YouTube)	KM officer with inputs from component specialists and M&E officer etc.	Kenyan Rural Population	1 awareness campaign per year starting in year 3	TBD
Awareness campaigns for FIs	Meetings and workshops	FIs are motivated to lend to agriculture sector.	Financial Institutions in Kenya	A total of 4 workshops for the project implementation period	National Workshops	KM officer supported by the PMU Staff	Local FIs	1 workshop per year	TBD
Awareness campaigns	Videos in local languages	Maintaining the feedback loop of the project's activities	Project beneficiaries	videos in local languages on project outcomes	Local video projections among the communities	KM officer	Developing Partners interested in Kenyan Rural Finance	X Videos in each participating county	TBD
Relevant knowledge products and lessons learned on	Collection of "stories from the field"	Partners and stakeholders are informed in an attractive way on the experiences of	Project partners and stakeholders and high-level decision makers	6 Stories from the field narrated through articles with testimonies.	IFAD official social networks and the project's social networks	KM officer, M&E Officer, PMU	Partnership with communication agency?	1 story per year of the project, starting	TBD

Rural Finance		beneficiaries through their own narratives						from year 3	
Relevant knowledge products and lessons learned on Rural Finance	Project briefs & Policy briefs	Partners and stakeholders and high-level decision makers are informed of lessons learned through the project	Partners and stakeholders and high-level decision makers	4 project briefs Developed, published and shared with key readers.	IFAD networks and partners' networks.	KM Officer, M&E Officer, PMU		1 project brief per year, starting from year 3 of the project.	TBD
Relevant knowledge products and lessons learned on Rural Finance	How-to-do-note	Key stakeholders and high-level decision makers are informed of issues and lessons learned	Partners and stakeholders and high-level decision makers	Develop one How to do note on engaging the rural communities on access to credit.	IFAD networks and partners' networks,	KM Officer, M&E Officer, PMU	Partnership with interested Development Partners	1 How-to-do note develope d by the end of the project	TBD
Ensuring visibility	RK-FINFA website, Facebook page, and on other relevant social media.	Project visibility is ensured in social media.	All local, national, regional and international stakeholders	1 RK-FINFA website 1 RK-FINFA Facebook page 1 RK-FINFA Instagram page to publish photo-stories and videos	RK-FINFA social media and RK-FINFA website, IFAD networks	KM Officer, M&E Officer, PMU, IFAD Communicatio ns team		Develop ed from year 3 of project.	TBD
Ensuring visibility	Articles (newspaper /magazine), Blog posts and Press releases	Project visibility is ensured in social media	All local, national, regional and international stakeholders	X articles in X national newspaper X articles in X magazine X blog posts in X blogs X press releases	National newspapers; Online, local and national magazines; Online blogs;	KM Officer, M&E Officer, PMU, IFAD Communicatio ns team	Possible partnership with X newspapers /magazine /blogs	Ensure the publicati on of at least 1 article, 1 blog post per year.	TBD

								1 press release at the start of the project.	
Ensuring visibility	Content for the previously mentioned products: videos, photos, interviews, infographics and podcasts.	Project visibility is ensured in social media.	All local, national, regional and international stakeholders	Videos Photos Interviews Infographics Podcasts	IFAD, RK-FINFA and partners social media and networks, Newspapers, magazines and blogs, Radio stations	KM Officer, M&E Officer, PMU, IFAD Communications team	In partnership with newspapers /magazine /blogs	Continuous all along project implementation time	

DRAFT RK-FINFA PROCUREMENT GUIDELINES

Country Framework Assessment

Public procurement in Kenya is governed by the Public Procurement and Asset Disposal Act, adopted in December 2015 (the Act), which came into force in January 2016. Public Procurement and disposal regulations of 2020 have now been developed based on the 2015 Act. However, procurement manuals in place are still based on the old Act of 2005. Some of the provisions to enhance transparency and accountability have not been fully developed either. Despite the robust national public procurement system, gaps and inconsistencies still exist.

(i). Under IFAD financing, the project must communicate all choice of non-competitive sourcing methods both in the Procurement Plan submitted to IFAD for NO and through a specific dossier in NOTUS under the corresponding procurement method. Likewise, any contract entered into as a consequence of a non-competitive process must be entered in the Contract Monitoring Tool as such.

(ii). The Project will ensure the advertisement of all ICB activities in the UNDB and the advertisement of lower-value procurement through a dedicated project website.

(iii). All contracts awarded should be advertised in a website which is accessible by the public.

Assessment of National Treasury Procurement Capacity

The proposed project will operate under the NT. The overall capacity of the NT proved to be less than optimal in the closed PROFIT programme which led to overall slow procurement processes with major delays. Based on the review of the NT procurement documents, the general quality of documents produced could be improved. However, under RK-FINFA, the volume of procurements to be handled under NT is expected to be much less as most of the procurements will be carried out by the co-financing partners. The PMU is currently not staffed with any procurement professionals. There is a plan to competitively recruit a procurement officer who will be in charge of the procurement function. In order to ensure understanding and compliance with requirements, RK-FINFA will provide capacity building to the PMU; this will largely be in form of provision of targeted skills enhancement, particularly in the area of project procurement

Assessment of AGRA Procurement Systems

AGRA procurement systems were reviewed in detail. It was observed that AGRA follows a framework based on very detailed procurement guidelines embodied in the organization’s manual. The procurement unit is resourced with four qualified staff with additional support from consultants. The procurement and Finance units are separate and distinct and are managed by different people. The procurement manual captures a number of key issues that are a backbone to sound procurement principles which include procurement planning separated into different categories, competition depending on the amounts, different procurement methods are applied, and proper evaluation which captures both technical and financial. There are policies in place on fraud and corruption in procurement, issues on conflict of interest, confidentiality, and vendor code of conduct. AGRA uses an ERP system which captures procurements from requisition stage to contract award to final payment.

AGRA was also found to have a system in place for checking debarred suppliers by the UN and other bodies.

Consultancies mostly are done following the QCBS system where both quality and cost are considered and weighted on a 70% and 30% for technical and financial evaluation, respectively. Combined technical and financial reports were also done.

In conclusion, AGRA systems were found to be adequate to manage the kind of procurements envisaged in this project. It is recommended that while working with AGRA, they will be expected to provide a procurement plan to the PMU for consolidation and request for NO from IFAD. AGRA will also be required to adopt IFAD's Revised Policy on Fraud and Corruption, SH/SEA and Anti-money laundering policies in their SPDs and contracts. Finally, the agreement entered into with AGRA must contain all relevant instructions related to procurement processes and will be submitted to IFAD for No Objection.

Assessment of FSD Kenya Procurement System

FSD procurement systems were reviewed in detail. The organization has only one Procurement professional who runs the unit. The procurement specialist has the necessary qualification and experience to handle procurements for this project. The procurement regulations of FSD seem inadequate to handle major consultancy procurements envisaged in this project. A review of procurement activities executed showed weak processes and inconsistencies with IFAD's project procurement requirements. In conclusion, FSD has internal capacity to handle procurements under Sub-component 3.1 but by using IFAD's Project Procurement Guidelines, Procurement Handbook, and Standard Bidding Documents in lieu of their guidelines. The agreement entered into with FSD must contain all relevant instructions related to procurement process and will be submitted to IFAD for No Objection.

Procurement under Proposed RK-FINFA

It is expected that procurement under the proposed RK-FINFA would mainly be for goods and services. Rural Investment Instruments (Component 2) would not be considered as public procurement as it involves both ***Rural Credit Guarantee Scheme*** (R-CGS), and ***Green Financing Facility*** (GFF) designed as sustainable financing vehicles.

Under Component 1 (Technical Support and Innovation Services (TSIS), a co-financing partner organization is being sought to coordinate the TSIS component on behalf of the National Treasury as "the TSIS Coordinator. As the first implementation step, RK-FINFA will advertise its offered support instruments broadly among Kenyan financial institutions. Upon receipt of EOIs for participation, the TSIS Coordinator will conduct an evaluation of the EOIs submitted by the applying financial institutions. The results of the evaluation and recommendations for PFI selection to the TSIS pipeline are shared with IFAD for no-objection. Upon approval and admission of the PFIs into the TSIS pipeline, they are eligible to apply for financial resources through RK-FINFA subcomponents 2.1 and 2.2. The project repeats this call for Expressions of Interest bi-annually until the completion of the pipeline for RK-FINFA TSIS implementation.

Under Sub-component 3.1, managed and operated by the Policy Component Implementation Partner, procurements will be carried out in compliance with IFAD procurement guidelines and handbook and standard bidding documents. Procurement/selection methods for each procurement requirement should be provided in the procurement plan to be submitted to IFAD for no-objections.

Procurements under component 3.2 will be carried out by the PMU and will follow the GoK procurement guidelines with relevant provisions as highlighted above.

Proposed methods of procurement for goods, works, consulting services and related non-consulting services, as well as the IFAD prior-review thresholds, will be laid out in the Letter to the Borrower/Recipient, as may be amended from time to time, and in all agreements with implementing partners, which shall be subject to IFAD's prior review and No-Objection.

The procurement section of this PIM has a dynamic nature. It will be reviewed and updated periodically based on lessons learned during implementation and on developments that may occur during the Project's life. Any changes/amendments to the procurement section will be made in order to improve the Project's efficiency and effectiveness.

RK-FINFA FINANCIAL MANAGEMENT AND ACCCOUNTING ARRANGEMENTS

Financial management and disbursement arrangements

I. Summary of Financial Management arrangements

1. Financial Management System: RK-FINFA financial management arrangements follow the Government of Kenya financial management system with some enhancements proposed to mitigate on risks identified. A financial management assessment for RK-FINFA has been carried out in accordance with IFAD's Guidance Note on Undertaking Financial Management Assessment at Design. The objective of FMA is to provide assurance that RK-FINFA will be implemented within sound financial management practices (timely and efficient accounting systems), and punctual professional reviews; both internally (internal audit) and externally (external audit). The assessment was based on existing IFAD Kenya portfolio because RK-FINFA will be adopting similar processes and procedures. The assessment was combined with reviews at the National Treasury in Kenya.

2. The Government of Kenya (the Borrower) will be required to maintain acceptable financial management systems including accounting, financial reporting, and auditing systems for the RK-FINFA. Some project's specific additional measures have been incorporated to enhance financial management of the project.

Implementing and participating organizations with fiduciary responsibilities

3. The Lead Implementing Agency of RK-FINFA will be the Directorate of Budget, Fiscal and Economic Affairs in the National Treasury and Planning (NT&P). The Directorate is headed by a Director General who is answerable to the Principal Secretary of the NT&P. A Project Steering Committee (PSC) will be established with representation from the ministries and private and public agencies that will play key roles in the implementation of RK-FINFA. The Project Management Unit (PMU) will be established at the NT&P, housed in the Financial and Sectoral Affairs Department.

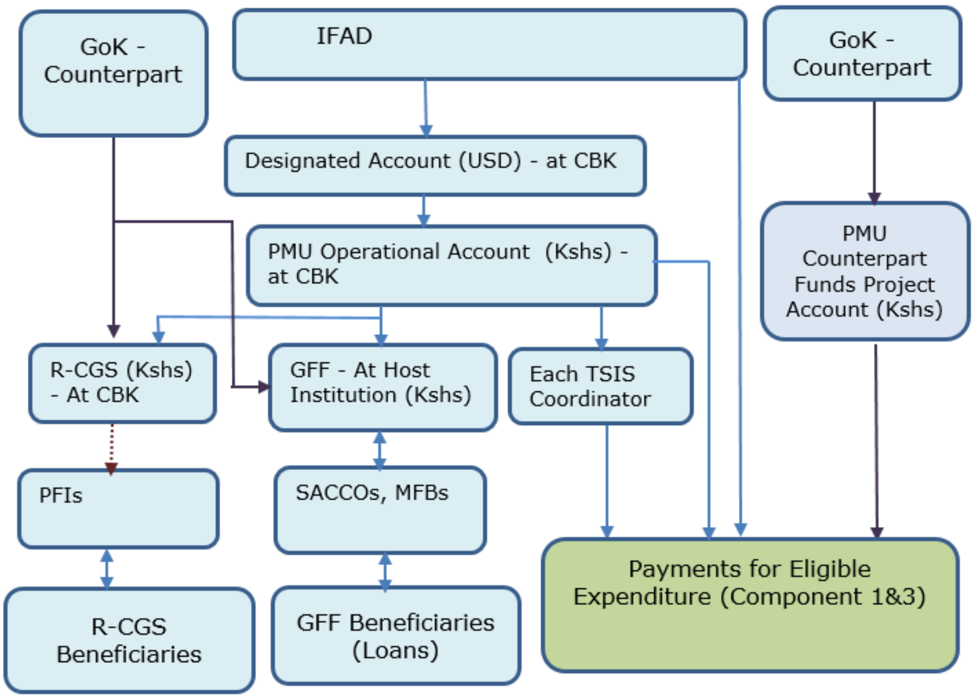
4. The Project Management Unit (PMU). The PMU under NT&P will be the overall accounting hub for the project. The PMU will be responsible for ensuring the implementation of Project activities and will have the following fiduciary responsibilities:

   a) the preparation of Annual Work plans and Budgets ensuring a bottom-up approach and timely submissions for inclusions in GoK overall approved budget estimates;
   b) Procurement planning, execution, and support service;
   c) Disbursement of funds to other implementing agencies as per funds flow structure,
   d) Management of withdrawal applications from IFAD;
   e) Financial management of the Project, including supervising and ensuring compliance with government regulations;
   f) Financial reporting and consolidation of financial statements for audits;
   g) Any requests for No Objection to IFAD will emanate from the PMU.

Disbursement Arrangements and Flow of Funds

5. There will be three types of disbursement mechanisms for the Project which consist of (i) **Disbursements, Accounts and Financial Management Systems.** There will be three types of disbursement mechanisms for the Project, which consist of (i) Advance Withdrawal, (ii) Direct Payments, and (iii) Reimbursements. Disbursements from IFAD will be made by way of an advance to the Designated Account and subsequent replenishments based on expenditure incurred as supported with Statement of Expenditure (SoE). There will be one

designated account held by the National Treasury at the Central Bank of Kenya that would receive funds from IFAD which will have a corresponding dedicated project operational account in Kenya Shillings (KES). All partnering institutions that will receive funds from the PMU will keep sub-project accounts for segregating the funds received. The sub-project account will be denominated in local currency and will be opened in a financial institution acceptable to IFAD. The R-CGS funds, after required conditions are met, will be deposited and ring-fenced at the Central Bank of Kenya. The guarantee reserve is accessible to PFIs only after possible losses materialise and have been reported and approved. The GFF funds will be transferred to the Host Financial Institution after required conditions are met. There will be monthly financial reports to the PMU for monitoring operations of sub-accounts and consolidation. Below is a diagram summarising the flow of funds:



6. The Designated Account limit will be set at the total 18 months of AWPB. For the implementing agencies, the earmarked advances for specific activities agreed with the PMU will be disbursed on quarterly basis, by 15th of the month following the quarter end. To manage risks of delays in accountability from implementing agencies, advances will be made for quarterly budgets and additional amounts for the subsequent quarter made only after 50% of the previous disbursements has been accounted for. Recording of expenditure to the project accounting system will be done by the PMU based on reports submitted by the implementing agencies. Payment for GoK counterpart costs for component 1 and 3 will be made from the PMU counterpart funds project account. Direct payment to suppliers or partners by IFAD. This will be on exceptional basis and for payments of more than US$ 100,000 as will be guided in the letter to borrower.

7. **Counterpart finance.** There have been delays observed in other portfolio projects regarding disbursements of counterpart finance to projects' accounts. IFAD will demand commitment from GoK that this will be done promptly for smooth implementation of the project. As shown above, there will be a separate bank account counterpart finance will be deposited. This account will be managed by PMU staff just like the project operational account. Counterpart

contribution for R-CGS and GFF will be made directly to the Bank Accounts where the funds are held.

8. **Withdrawal Applications** for Advance Withdrawal and Reimbursements may be submitted once ninety 90 days (quarterly basis) have lapsed from the submission of the previous withdrawal application. However, if the requested withdrawal amount is at least twenty per cent (20%) of the initial advanced amounts, a withdrawal application may be submitted even if ninety (90) days have not lapsed. This will be included in the letter to the borrower (LTB).

9. The Designated Account limit will be set at the total 18 months of AWPB. The DA limit may be reviewed and adjusted if there are increased payments as the project progresses. In that case PMU would write an official letter to IFAD with the expected cash flow projections and the proposed adjusted ceiling for considerations.

Planning and budgeting

10. RK-FINFA budget will, as required by the Public Finance Management Act, be part of the GoK overall printed national budget estimates as part of the parliamentary approvals and appropriations. The Project budget would need to be included in the line ministry (National Treasury) budget.

11. The Financial Controller of the PMU will coordinate the budget preparation processes with close coordination with project coordinator. Payments cannot be made if the budget provisions have not been made and approved by Parliament.

12. The GoK budget formulations usually start by August; 10 months before the implementation period while the AWPB for the project are usually prepared and submitted to IFAD near the end of a financial year. Due to the timing difference, there can be significant differences between the AWPB for which IFAD eventually expresses 'no objection', and the budget that had been appropriated and approved in the printed estimates. The appropriated amount is a block limit, from which implementing entities have a window in May/June at submission of AWPB, to provide the breakdowns for the AWPB signed–off by the Accounting Officer of the Ministry. The Financial Controller will ensure the breakdowns included in the accounting system is in line with the AWPB for which IFAD has provided no-objection and spending is in line with this.

13. In some cases by the time the budget is appropriated by parliament there can be unexplained cuts/ reductions in expenditure estimates for line Ministry. This element of uncertainty sometimes results into discrepancies between the AWPB on which IFAD has expressed No objection and that appropriated by Parliament. The Financial Controller will closely work with planning officers at the National Treasury to ensure the project is not affected by these regular budget cuts which are usually based on estimated and actual revenue collections by the government. The budgeting area is therefore considered a risk area that require keen monitoring. While there are supplementary budget processes which ensure what may have been omitted is rectified, this takes time, hence critical to ensure there is adequate budget for the project at the start of the year. Over-budgeting also poses problems in future since the project would not be able to demonstrate capabilities to absorb future significant amounts which leads to more struggles in asking for higher budget allocations in the printed estimates. Close monitoring in this regard will be critical.

14. The arbitrary cut of printed estimates budgets in the course of a fiscal year due to other fiscal measures will be emphasized during loan negotiations and specific assurances be sought that project budget estimates will not be arbitrarily cut by the National Treasury.

15. **Budgeting as Revenue and AIA:** The project funds will be budgeted either as Revenue or appropriation in aid (AIA).

- Budgeting as Revenue: Budgeting is done under Revenue IFAD will release the funds through the exchequer system. This budgeting will be done for activities which are expected to be paid from the project operational accounts.

- Budgeting under AIA procedure: This is where the donor is expected to pay the beneficiary direct. All the procurement procedures are followed as per the laid down government procedures, vouchers processed in the normal manner, but the original documents accompanied with form 100 (Application for withdrawal) with all relevant details is forwarded to Donor for payment after capturing the amount payable into the Ministry's books by using form F.O. 25 (Journal voucher) as well as in the Integrated Financial Management System (IFMIS). However, the minimum to be processed should not be less than US$ 100,000.

Accounting systems, policies and procedures

16. The National Treasury will procure a financial management software as well as training for the finance staff on how to use it. IFAD requires a financial system that will be able to (i) extract SoE for withdrawal applications, (ii) reporting expenditure per category and comparing budget vs actual for the same for the current year and cumulatively, (iii) reporting expenditure per category and comparing budget vs actual for the same for the current year and cumulatively, (iv) reporting expenditure by component and comparing budget vs actual for the same for the current year and cumulatively, and (v) reporting of expenditure per financier. There has been issue of full adoption and delays in implementation of accounting system in other projects. To mitigate on this, acquisition of the accounting system has proposed as an effectiveness condition. The selection of project finance staff will also consider the competence of the candidates to use computerised systems.

17. Disbursement to the partners will be made as advances. Recording of expenditure to the project accounting system will be done by PCU based on expenditure reports submitted by the counties.

18. The project expenditure initiation, authorization and payments will be in line with Public Finance Management Act of Kenya. The Principal Secretary (National Treasury) is the responsible Accounting Officer for the Project. The Project Coordinator May authorize payments memo in line with the delegated authority by the Principal Secretary. At the other implementing agencies, all payments memos will also be approved by responsible officers in accordance with their organisational structure. The Financial Controller at the PMU will be responsible for budget control, proper recording in the accounting system and all financial reporting for the project and will produce a consolidated financial statement for all the components.

19. The Permanent Secretary, National Treasury and all Ministry officials under his delegation play a key role of approving all financial documents for onward submission to IFAD on financial and other project implementation matters. Under the loan agreement, The National Treasury represent GoK as the borrower.

Financial reporting

20. Financial Controller at PMU will be responsible for all financial reporting for the project and will produce a consolidated financial statement for the project. The financial reporting will comply with International Public-Sector Accounting Standards (IPSAS) - Cash basis.

21. On annual basis, the consolidated financial statements for the project will be audited by Office of the Auditor General and audited financial statements submitted to IFAD within six months after the period end in accordance with IFAD guidelines. IFAD will, in addition, to the annual audited financial statements require interim financial reports on a six-monthly interval. For management decision and control, detailed monthly and quarterly management accounts will be produced.

STATEMENTS OF EXPENDITURES (SOE)

22. SoEs will be prepared by the project for processing of Withdrawal application. The detailed guidelines and SoE templates have been elaborated under financial guidelines issued by IFAD which will be included in the disbursements letter. The PMU Accountant shall assist in the compilation of the expenditures from the implementing agencies which upon meeting the IFAD threshold shall be submitted in form of Withdrawal Applications to IFAD, through the lead ministry and ERD – Treasury. This activity shall be carried by the PMU every quarter or if the withdrawal limits has been attained. Partners will prepare the SoE on monthly basis and submit to PCU.

23. The PCU will prepare the consolidated SoE which shall be used in the preparation of the Withdrawal Applications using the guideline below:
    i. Each and every category should be typed on a separate summary sheet, which should be numbered sequentially, and details of categories e.g. civil works clearly marked on the section – description of category.
    ii. Reporting period on the summary sheet to be clearly indicated with the earliest paid voucher indicating the starting period and the latest end period e.g. 1st Nov 2020 to 31st December 2020.
    iii. The rate of exchange will be the ruling rates when funds are transferred from the special account to project operational account and should be used when exchanging to the US Dollar equivalent. The rates will be applied on FIFO basis until the prior transfer is fully exhausted.
    iv. The IFAD forms used, including the checklist and SPA Reconciliation shall be attached to form the Withdrawal Application. Other documentations for attachment shall include:

- Bank Reconciliation Statement for the last month of reporting.
- Cash book copy of the last reporting date showing the balances.
- Copy of the bank statement for the last reporting month.
- DA statement
- DA reconciliation statement
- PCU bank account reconciliation statement

    - The summary sheets will be prepared according to categories and numbered sequentially.
    - The amount spent per component should be clearly indicated.
    - The summary sheets signed by the Project Coordinator and Financial Controller and to be signed by authorized representative from Ministry of Finance.
    - Special Account Reconciliation statement duly signed by the Financial controller
    - Checklist withdrawal application duly signed by the Project Coordinator and Financial Controller.
    - Application for withdrawal to be duly signed by authorized representative.

- All the above supporting documents together will be forwarded to External Resources department for further processing before being forwarded to IFAD for replenishment.

Financial management organization and staffing

24. As noted above, the project financial management arrangements follow the Government of Kenya financial management system. The PS, NT&P is the accounting officer for the project. The Accounting Unit of the Project shall be managed by the Financial Controller assisted by the Project Accountant.

25. The Project Accounting team duties and responsibilities shall include:
    - Contributing to the preparation and update of the Financial Manuals.
    - Ensuring the project's financial procedures as detailed in the Project Implementation and Financial Manuals and other guidelines that may be issued are strictly followed by all Project staff and implementing agencies at the national and devolved levels.
    - Facilitating, as much as possible, the timely disbursement of project funds
    - Compiling the Expenditure Returns for the PMU and other implementing agencies, and headquarters for submission to the External Resources Department – Treasury.
    - Liaising with the implementing officers from the Project implementing partners to ensure that SOE's are prepared in timely manner and forwarded to External Resources Department – Treasury.
    - Preparing periodic and statutory financial reports and advising the Project Coordinator on the Project's financial status and trends.
    - Ensuring adherence to Government of Kenya's financial practices and circulars as issued from time to time, to ensure only legible payments are made from the Project's funds.
    - To carry out periodic backstopping visits to the implementing agencies, providing financial advice and recommendations where necessary.
    - Facilitating and ensuring that external auditors are availed all necessary documents during the audit as detailed in the Loan Agreement and making a follow up on audit recommendations.
    - Ensuring that the financial transactions are well documented, filed and that the Project financial transactions are entered into the Government existing accounting systems.
    - Any other duty (related to the Project's activities) as may be assigned by the Project Coordinator.

26. The following staff positions have been provided for to ensure adequate coordination of payments for project expenditure, making appropriate accounting entries and financial reporting.

Implementation level	**Project Staff position and numbers**	**Remarks**
PCU	– Finance Controller (1) – Project Accountant (1)	– The staffing is based on a similar IFAD funded project which has similar types of activities and implementation arrangement. – These staff will be hired on two years contract, renewable based on performance which is expected to enhance performance. – The staff will be hired as part of start-up activities.

Implementing Partners (TSIS)	Designated Project Accountant	– This will be a staff of the partners, designated to handle financial reporting and coordinating processing of transactions. – It will be one of the conditions in the MoU with TSIS Coordinator to have a designated accountant for the project to ensure there is a focal person for smooth handling of financial transactions.

Internal Controls

27. In order to effectively safeguard project resources, internal controls have been instituted at the PMU in the whole framework of financial and administrative procedures. The identified controls range from; proper record keeping and posting, authorization of accounting, procurement, and administrative documents, balancing and checking, physical security of assets, double signing (approval) arrangements, to financial reporting and monitoring. These are prescribed in PFM act and further detailed in the finance and operation manual for the project. There will be internal audit function, as noted below, to check overall compliance to internal controls and provide support towards improving systems, procedures, and processes.

Internal Audit

28. Internal audits will be conducted to provide assurance that the Project is being implemented in accordance with the PIM, complies with GoK regulations and is complying with Project financing covenants. The project will utilise the internal audit function at NT&P to carry out internal audit. The internal Auditors will be required to carry out the audit of the project at least once annually.

29. IFAD supervision and implementation support missions will consistently demand and review the rolling internal audit plans, internal audit reports produced and shared as per internal audit plans and implementations of internal audit recommendations.

External Audit

30. External audits will be executed by the Auditor General who have been carrying out the external audit of IFAD projects implemented by the Government. Any changes in the Terms of Reference will require the Fund's No Objection. IFAD will require specific audit opinions: (a) general opinion on the financial statements, (b) opinion on the balances of funds held in the special account. The new IFAD handbook on audit has been shared with the auditors to enhance their reviews.

31. The audits by OAG are carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) and relevant ethical requirements. As such they also include revenue, expenditure, assets, and liabilities. In addition, they highlight any relevant material issues and systemic and control risks. This enables the auditor to express an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with an identified or applicable financial reporting framework and (or) statutory requirements.

32. The Auditor General in drawing up his audit Projects incorporates review of the implementation of the previous period's recommendations. If those recommendations have not been followed this will be stated in the current audit report. The capacity of OAG has

been consistently assessed by IFAD as satisfactory in terms of undertaking project audits. The risk assessment here is therefore low. The audited financial statements will be submitted to IFAD within 6 months after financial end as required by IFAD.

33. **Nature of project eligible expenditures** - Project expenditure categories have been allocated in accordance with the standard expenditure categories. Detailed cost tables are presented in this document. Transaction-based disbursement procedures will be used. The eligibility of expenditure should require:

a) The expenditure shall meet the reasonable cost of goods, works and services required for the Project and covered by the relevant AWPB and procured in conformity with the procurement guidelines
b) The expenditure shall be incurred during the project implementation period, except that expenditures to meet the costs of winding up the project that may be incurred after the project completion date and before the closing date
c) The expenditure shall be incurred by a project party
d) If the agreement allocates the amount of the financing to categories of eligible expenditures and specifies the percentages of such eligible expenditures to be financed, the expenditure must relate to a category whose allocation has not been depleted and shall be eligible only up to the percentage applicable to such category.
e) The expenditure shall be otherwise eligible in accordance with the terms of the financing agreement

34. All payment vouchers will be examined to ascertain the following requirements:

- That the expenditure has been incurred on proper authority and is a charge to properly voted funds.
- That payment vouchers are supported by original documents or certified photocopies of the original documents (such copies must be certified by the appropriate officer that he has taken all possible steps to ensure that no payment has been made on the original document).
- That rates charged are according to regulations/contracts, fair and reasonable.
- That appropriate authority e.g. DTC, MTC etc. has been obtained and a copy of the minutes attached to the payment vouchers for reference purposes.
- That the allocation of account codes is correct.
- That appropriate certificates have been signed by the AIE holder or officer authorized by him in writing.
- That the vote book control certificate has been duly signed to confirm availability of funds.
- That the computations and costing have been verified and are arithmetically correct.
- That the persons named in the payment vouchers are those entitled to receive the payment.
- Any alterations of payment voucher should be counter signed by the AIE holder in charge of the unit.
- That the signatories to the certificates are as per those indicated in the specimen signature document
- That payments are supported by duly certified invoices, receipted bills (for direct cash payments), LPOs, LSOs, VAT certificates, copies of supplier’s delivery note, Form S13, and the certificate at the reverse of the payment voucher signed to confirm stores entry into the relevant inventory ledgers.

FM Supervision plan

35. **Supervision.** RK-FINFA will be directly supervised by IFAD with annual implementation support missions, followed initially by shorter follow-up missions six months later as may be assessed. Supervision will not be conducted as a general inspection or evaluation, but rather as an opportunity to jointly assess achievements and lessons, and to reflect on ways to improve implementation and impact. From a financial management perspective, IFAD missions will keenly follow up the fiduciary risk at various levels, including the use of the report-based disbursement.

RK-FINFA PIM APPENDIX 1: OPERATIONAL MANUAL - MSME CREDIT GUARANTEE SCHEME

RK-FINFA PIM APPENDIX 2: MAPPING OF KENYAN RURAL FINANCIAL INSTITUTIONS

RK-FINFA PIM APPENDIX 3: ENVIRONMENTAL, SOCIAL AND CLIMATE CHANGE MANAGEMENT

Republic of Kenya

The National Treasury and Planning

DRAFT Operational Manual

Kenya MSME Credit Guarantee Scheme

Covid-19 Response

November 25, 2020

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PART I. PROJECT BACKGROUND

1. THE COVID-19 PANDEMIC CONTEXT[1]

Kenya's economy is being hit hard by the global coronavirus COVID-19 pandemic, negatively impacting MSME operation and their ability to meet their payment obligations. The public health emergency that has been called across many countries is posing temporary difficulties for people and businesses to keep up with their loan repayments or with their utility bills (phone, electricity, water, etc.). As part of containment measures, the Government of Kenya (GoK) introduced movement restrictions, which inadvertently led to job and income losses for numerous households[2]. Restrictions in movement across the globe and in Kenya also led to disruptions in supply chains, affecting the ability of the private sector to produce and supply goods and services. Demand has also been suppressed due to decreasing incomes and depressed consumer spending, further compounding the economic challenges.

MSMEs are the lifeblood of Kenya's economy and employment. They have been disproportionately affected by COVID-19 and require immediate life-line interventions and a re-evaluation of their operating environment. The unforeseen and dramatic fall in revenues and liquidity has put the sector under significant stress. Due to increased risk-aversion, some businesses are expected to be unable to access new funding or further drawdowns of their credit facilities just when they need them most. To compound the situation, continued access to funds under revolving credit facility facilities or other sources is at risk due to the weak business environment.

To mitigate the economic impact of the pandemic, the Kenyan Government introduced various measures to increase employment, support local enterprises, and provide Kenyan citizens with financial support. Some of the interventions include recruiting additional health workers, hiring local labor to support national hygiene efforts and broader public works initiatives, allocating funds for VAT refunds, soft credit facilities, credit facility guarantees for businesses, and rolling out direct cash transfer programs to support vulnerable Kenyans. However, these interventions will not be sufficient to cushion and revive the economy. Additional measures are therefore being drafted with a priority given to initiatives that will create a significant number of new jobs with manageable financing implications for the government.

[1] This section is based on the Government of Kenya report entitled "Rebuilding the Kenyan Economy Post-COVID-19"

[2] KNBS, "Survey on Socio-Economic Impact of COVID-19 on Households," 2020; KNBS, "Economic Survey," 2020

2. CGS PROJECT OVERVIEW

The National Treasury is proposing the establishment of a Credit Guarantee Scheme (CGS) to support access to finance for the Kenyan MSME Sector. The proposed facility will aim to stabilize the market and protect jobs, maintaining current access to finance to MSMEs impacted by COVID-19. MSMEs affected by the COVID-19 crisis have immediate cash-flow needs to meet their credit facility obligations and reorganize their operations to navigate this difficult period.

The CGS will effectively support MSME impacted by COVID19 by facilitating a credit facility at more favourable financing terms as well as access to emergency bridge credit facilities. The risk sharing is on a 50:50 pari-passu basis; once the CGS's loss attains a 25% level, the lenders will bear the rest of the risk. The risk-sharing arrangement will be provided on a portfolio basis. A portfolio approach to managing guarantee payments promotes faster turnaround times and ease of processing. To avoid the moral hazard issue, lenders must register all of their MSME credit facilities that meet the CGS criteria as the guarantee is targeted at the PFIs total MSME portfolio. During this temporary program, lenders will register their eligible credit facilities by emailing specific data on each credit facility when it is approved. The data submitted will identify the borrower and include information about the credit facility.

When a credit facility has been in default for 90 calendar days PFI can claim for payment by the scheme. Subject to validation process of up to 30 days, the scheme will pay the PFI and advance of 25% of the balance outstanding. During the following 90 day period, the lender must try to restructure the credit facility to meet the borrower's cash flow. The scheme will pay the remaining 25% of the outstanding amount after 180 days of the credit facility being in default, subject to a validation process up to 30 days. The maximum sum payable on a claim shall not exceed 25% of the principal amount.

The PFI must continue to collect on the credit facilities after default. Once the sum of guarantee and recovery payments equal the amount defaulted, any further collections will be remitted to the CGS.

This is seen as short-term intervention to support MSMEs until after the COVID-19 pandemic impact. Once the effects of the pandemic have subsided, the CGS will provide a sound platform for establishing the national MSME Credit Guarantee Company contemplated by the National Treasury to support the implementation of the Government of Kenya's Big Four Agenda. Substantial changes are likely to be made at that time including a revamping of the guarantee process and the fee schedule.

3. Key Project Stakeholders

3.1. The National Treasury

The National Treasury upon enactment of the Public Finance Management (Amendment) Act, 2020 provides for the establishment of the Credit Guarantee Scheme. The management of the scheme will be vested in the CGS in accordance with the provisions of the PFM Act, 2012. The National Treasury will provide guidelines on the operationalization of the CGS and ensure prudent management of the Facility. The National Treasury shall maintain oversight of the CGS through a steering committee. The National Treasury will provide the initial funding of KSh. 5 billion for the CGS and enter into a Risk Sharing Scheme Agreement with Participating Financial Institutions (PFIs) that have been competitively selected through a set out criteria to implement the Risk Sharing facility. The National Treasury will also engage other stakeholders and partners to achieve additional funding, which will be required given the magnitude of the pandemic.

The CGS shall undertake all activities related to the management of credit guarantee including processing applications, risk management, reporting, among others. The CGS management shall report to the Cabinet Secretary, the National Treasury and Planning on a regular basis on the progress in the implementation of the scheme. The CGS will be audited on an annual basis. The CGS will provide regular reports with regard to portfolio guaranteed, list of beneficiaries, coverage, among other performance indicators in accordance with the PFM Act 2012.

3.2. The Central Bank of Kenya

The National Treasury intends to collaborate with CBK in the management of the CGS in the implementation of the scheme. Further, the CBK will, among others, support the supervision of the guarantee product in the market and provisioning of the product in accordance with prudential guidelines to facilitate uptake and realization of the development objective.

3.3. Participating Financial Institutions

PFIs will enter into a Risk Sharing Agreement with the Government of Kenya and will abide to adhere to the terms and conditions set in the Agreement.

- PFIs will establish a Scheme credit facility Portfolio through the Facility Agreements entered into between the PFIs and the Borrowers and, a PFI will maintain control over the credit processes and decisions related thereto. It is expected that a bank will use its normal bank lending criteria as applied by the Bank in the ordinary course of its business in considering and approving credit/credit facility applications and more so as relating to credit facilities under the Scheme, and which shall be applied by the Bank in considering and approving facilities under the Scheme.
- Once the relevant credit processes have been established, PFIs will make available credit facilities to the potential borrowers, subject to an applicant satisfying both the Scheme

Qualifying Criteria and based on the Bank's Prudent Lending Criteria. The Scheme Qualifying Criteria refers to the pre-qualifying criteria required to be met in order for an Applicant to be considered for a Facility under the Scheme.

- The PFI will be required to conduct its lending business towards the Borrowers by using banking practice, business discretion, due diligence, and/or adhering to the applicable laws, regulations, and directives;
- PFIs will be required to provide information and other necessary data needed for the monitoring and evaluation framework of the CGS project.

PART II. CGS OPERATIONAL FRAMEWORK

1. TARGET GROUP CHARACTERISTICS

1.1. MSME Definition

As shown in Table 1, companies are classified by number of employees, annual turnover and total assets**.** Microenterprises are those entities with 1-9 employees, an annual turnover of up to KSh 500,000. The threshold for total assets is to be set by the Government from time to time.

Table 1: Definition of MSME by staffing and annual turnover

Definition	Employees	Annual Turnover
Micro	1-9	Up to 500,000 KSh
Small	10-49	Up to 5,000,000 KSh
Medium	50-250	Up to 100,000,000 KSh

1.2. MSME Profile in Kenya

The majority of businesses in Kenya are micro businesses, and most of them are unregistered. The vast majority of MSMEs are micro enterprises with 1-9 employees, representing more than 92% of all formal MSMEs, and an even higher percentage of informal ones. Informality is widespread, with an estimated 5.9 million unlicensed businesses operating, as compared to 1.6 million licensed businesses.

Registered businesses, defined as businesses registered with the Registrar of Companies, represent about 6% of businesses in Kenya. 28% of formal MSMEs are registered; nonetheless, registered businesses contribute approximately 90% of the total gross value added by MSMEs. The vast majority of registered MSMEs are also micro-sized enterprises with 1-9 employees (74%) and this pattern holds across most sectors, with a few exceptions for sectors with disproportionately high percentages of SMEs (e.g., Mining and Quarrying; Education; Agriculture; Electricity, Gas, and Air Conditioning Supply; and Water Supply).

Approximately three out of four (76%) MSMEs have a monthly turnover of less than KSh 100,000. The median monthly turnover of registered MSMEs is KSh 50,000 (KSh 600,000 annually). Small and medium MSMEs have the highest share of businesses with monthly turnover higher than KSh 100,000. About 40% of Kenyan MSMSE are located in Nairobi.

Table 2: Registered MSMEs by Business Sector

Sector	% of Total	Micro	Small	Medium
Wholesale and retail trade; vehicle/motorcycle repair	47.1%	85.0%	13.3%	1.7%
Accommodation and food service activities	7.4%	61.5%	35.6%	2.8%
Manufacturing	6.9%	72.7%	21.4%	5.8%
Financial and insurance activities	6.7%	81.0%	15.5%	3.5%
Education	6.2%	21.8%	66.0%	12.1%
Other service activities	4.7%	91.6%	8.4%	0.0%
Professional, scientific and technical activities	4.3%	60.3%	34.2%	5.5%
Transportation and storage	3.5%	54.6%	32.9%	12.5%
Administrative and support service activities	3.2%	78.6%	20.6%	0.8%
Human health and social work activities	2.2%	63.6%	24.8%	11.5%
Real estate activities	1.9%	74.6%	22.9%	2.5%
Construction	1.7%	57.3%	34.9%	7.8%
Information and communication	1.7%	58.7%	39.8%	1.5%
Arts, entertainment and recreation	1.6%	89.0%	10.9%	0.0%
Water supply; sewerage, waste mgmt. and remediation	0.8%	20.0%	79.9%	0.0%
Mining and quarrying	0.2%	2.4%	97.5%	0.0%
Electricity, gas, steam and air conditioning supply	0.1%	45.5%	53.3%	1.2%
Agriculture, forestry and fishing	0.1%	29.6%	67.4%	3.0%

Source: 2016 MSME survey by the KNBS

Table 3: Country coverage by MSME type

County	Micro	Small	Medium	Overall
Nairobi	**36.33%**	**46.01%**	**37.52%**	**38.54%**
Kiambu	6.94%	5.44%	3.08%	6.47%
Kisumu	5.38%	5.75%	10.27%	5.64%
Mombasa	6.06%	3.27%	1.73%	5.28%
Nakuru	3.47%	6.43%	18.18%	4.65%
Kajiado	2.51%	3.34%	1.45%	2.66%
Kakamega	2.59%	2.35%	5.05%	2.62%
Narok	2.99%	1.08%	1.11%	2.50%
Machakos	2.09%	2.82%	0.73%	2.21%
Uasin Gishu	2.08%	2.43%	0.46%	2.10%
Other Counties	29.55%	21.08%	20.41%	27.31%

Source: 2016 MSME survey by the KNBS

1.3. CGS Target Group

The CGS will target registered MSMEs, contributing approximately 90% of the total gross value added by MSMEs. These MSMEs directly or indirectly impacted by the COVID-19 crisis have the immediate need to maintain their source of funding to mitigate cash flow issue and continue with their operations without carrying out drastic cuts to their number of employees. All sectors and MSME types shall be targeted.

2. Product Description

2.1. Overview

Product features	Credit Guarantee Scheme
Product Concept	The Credit Guarantee Scheme aims to maintain access to finance for MSMEs and protect jobs.
Target Clientele	Registered MSMEs
Coverage Type	Risk shared on a 50:50 pari-Passu basis; subject to a maximum guarantee exposure of 25% of the principal amount
Effective Coverage	25% of individual credit facility[3]
Credit Facility Terms	➢ Maximum Amount: KSh.5 million ➢ Interest rate: Market rate with a discount by the lender ➢ Term: maximum tenor is 3 years ➢ Prepayment penalty is not allowed ➢ Grace period: up to 5 months of no payment or interest only payments determined by the borrower's current cash flow ➢ Facility issued upon establishment of the scheme and entry into force of the service level agreement
CGS Pricing (guarantee fee)	No guarantee fee
CGS Collateral Requirements	Standard collateral as per PFI's policy, but subject to negotiation with borrower
CGS Approval Process	All credit facilities meeting the SME credit facility criteria must be registered with the scheme.

NB

Loss sharing ratio illustration on a 50:50 pari-passu basis; subject to a maximum exposure of 25% of the principal amount

To illustrate the proposed loss sharing ratio of 50:50 pari passu basis with maximum exposure of 25% for the CGS, using an example of a facility of KES 1,000,000.00

On the occurrence of a loss, the scenarios are as follows:

Loss	*Share of CGS*	*Share of PFI*
KSh.100, 000	*KSh.50, 000*	*KSh.50, 000*
KSh.500, 000	*KSh.250, 000*	*KSh.250, 000*
KSh.700, 000	*KSh.250, 000*	*KSh.450, 000*
KSh.1, 000,000	*KSh.250, 000*	*KSh.750, 000*

[3] Credit facilities could include, among others, loans, overdrafts, commercial paper, purchase order financing, finance bonds, invoice discounting, letters of credit, performance and bid bonds, pre-shipment receipts, trade and commercial bills and warehouse receipts.

2.2. Product Rationale

MSMEs have limited revenue due to the reduction in business caused by the pandemic. They need working capital to pay their ongoing bills including rent, utilities, and the salaries of staff that are still working. They need working capital financing with a sufficient grace period to allow them to stay in business until sales recover. This working capital funding must have a relatively long tenor as the income that will be used to repay these credit facilities will not be earned until later this year or early next year. Typically, a credit facility is obtained by a borrower and the funds are invested in a productive activity which generates income. The income is then used to repay the credit facility. The credit tenure should be long enough to enable the borrower meet the repayment instalment.

Eligible clients are those MSMEs which are in good standing, but have been affected by the COVID-19 pandemic and are struggling to meet their financial obligations. These businesses will require a credit facility to maintain or re-start business operations. The CGS will provide guarantees to support all economic sectors. PFIs will determine the viability of the credit facility proposal based on their own assessment.

The banks will also benefit from a reduction in their risk exposure as the CGS will provide partial guarantee for those borrowers that otherwise may have trouble repaying their credit or loans.

2.3. Financial Terms

2.3.1. Credit facility amount

The maximum credit facility shall be KSh.5, 000,000 per borrower. Top up loans will not be eligible for guarantee.

2.3.2. Credit Facility Maturity

The tenor of the CGS credit facility may not exceed 3 years, including rescheduling, but excluding the grace period.

2.3.3. Credit Facility Repayment mode

The mode of repayment for Credit Guarantee Scheme credit facilities shall be monthly. The limiting of the grace period to a maximum of 5 months is to ensure that MSMEs do not divert resources to other uses. It also hastens repayment to free up funds in the the scheme to guarantee more borrowers. During the grace period, the PFI may suspend principal and interest or principal only (with interest payments being made). Instalments must be in line with the normal bank lending criteria and the available cash flow of the borrower.

2.3.4. Pricing

Fee	Rate
Interest rate:	Market rate with a discount by the lender
Commitment fees:	None
Late payment fees:	Prepayment penalty is not allowed
Registration fees:	None

The CGS will not charge any fee for its guarantee.

2.3.5. Collateral Requirements

Collateral requirements shall be as per PFI's credit appraisal policy.

3. ELIGIBILITY CRITERIA

3.1 MSMEs *Credit Facility Eligibility Criteria*

Borrowers may operate in any sector of the economy and must meet specific requirements to qualify for the CGS. These requirements are:

1. Be a micro, small or medium enterprise registered as a business or company under the relevant Kenyan laws
2. Be a registered taxpayer and in compliance with the relevant tax laws
3. Be registered by a county government and hold a valid business permit or trade licence
4. Not part of any group or related to any enterprise that would otherwise, by the law, regulations or other attendant guidelines, not be eligible for credit guarantee under CGS
5. Agrees in writing to comply with the provisions of PFM Act and any conditions that may be prescribed in accordance to the Act
6. Borrower must have been operating viably for at least two years and/or provide a viable business proposal;
7. The borrower must provide statements of accounts. While PFIs may help in preparing these statements, reconstructed statements of accounts must be based on documentary evidence, such as bank statements, accounting records and purchase receipts;
8. The borrower must be a credit-worthy micro, small or medium-sized enterprise operating in Kenya; and

9. The borrower must be compliant with Kenya Bank's Environmental Risk Management Guidelines[4].

A list of business activities excluded from CGS support can be found in Annex A1.

3.2 PFIs Eligibility requirements

In general a commercial bank will be eligible to participate if it fulfils the following criteria:

1. A commercial bank that is licensed by the CBK and provides credit facilities to MSMEs in the ordinary course of business;
2. Have wide geographical outreach network;
3. Have wide sectoral coverage in its portfolio;
4. Have the experience and ability to make and service MSMEs credit facilities as evidenced by the number of MSME credit facilities currently in their portfolio and the length of time the PFI has been making MSME credit facilities;
5. Must have a sound track-record of maintaining portfolio quality; and
6. Must be in compliance with the CBK Prudential Guidelines.

An eligible commercial bank willing to participate in CGS must express interest to the National Treasury. Upon receiving the expression of interest, the National Treasury will apply an objective scoring tool to select qualifying banks and issue to them the Risk Sharing Agreement. After the PFI has executed the agreement and returned an original version of the agreement to the CGS, the CGS will contact the PFI and review the procedure for registering a credit facility for a guarantee.

[4] https://www.centralbank.go.ke/wp-content/uploads/2016/08/risk-management-guidelines-january-20131.pdf

4. Origination and Claim Process

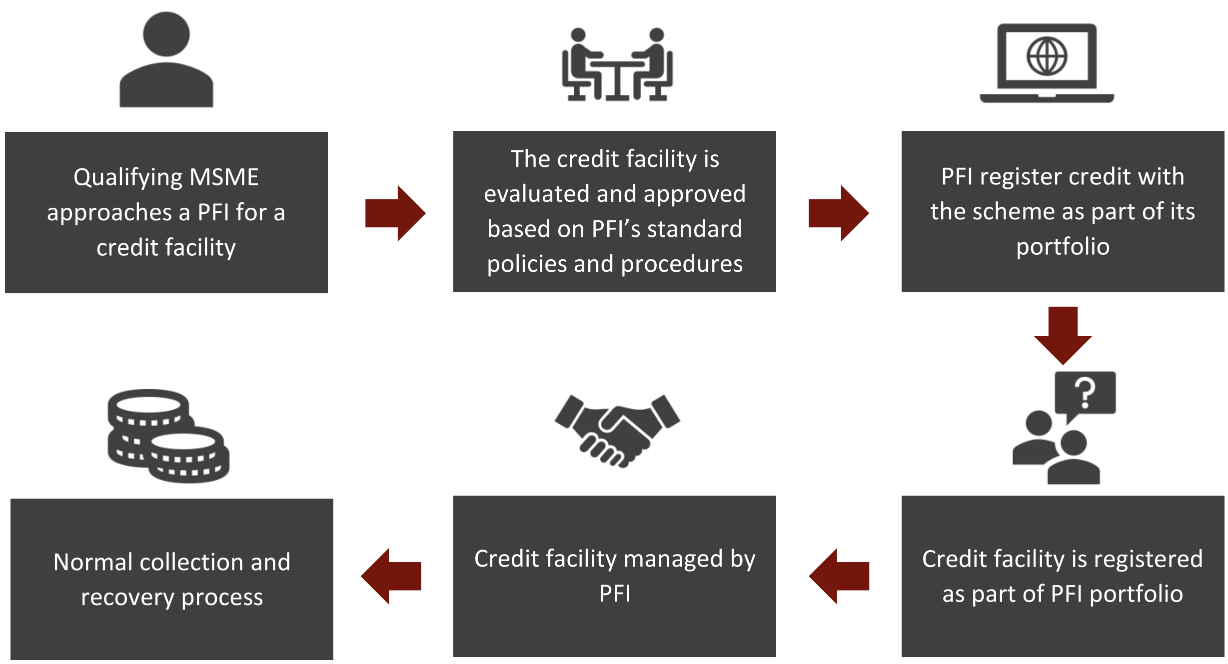
4.1 Credit Facility Processes

4.1.1 Application Process

CGS applications and claims processing will be handled manually during the initial phase of the program. The PFI shall email the information necessary for the CGS to register the credit facility for a guarantee. Any documents necessary will be sent via email as a PDF file.

CGS must assign a maximum portfolio amount to each PFI at the beginning of the process. The KSh.20 billion can be divided among the PFIs, although it is a good idea to hold some in reserve in case one bank ends up approving more credit facilities than anticipated.

Figure 1: CGS Credit Facility Process



4.1.2 Credit Facility Monitoring Process

All credit facilities under the CGS must be monitored with the same level of diligence as any other credit facility in accordance with the PFIs' policies. In the case of any guaranteed credit facilities or instalments falling past due, it is imperative that the PFI is able to demonstrate that it has classified the credit facility on their books accordingly.

Indicative Credit Facility Monitoring Procedures at PFI level

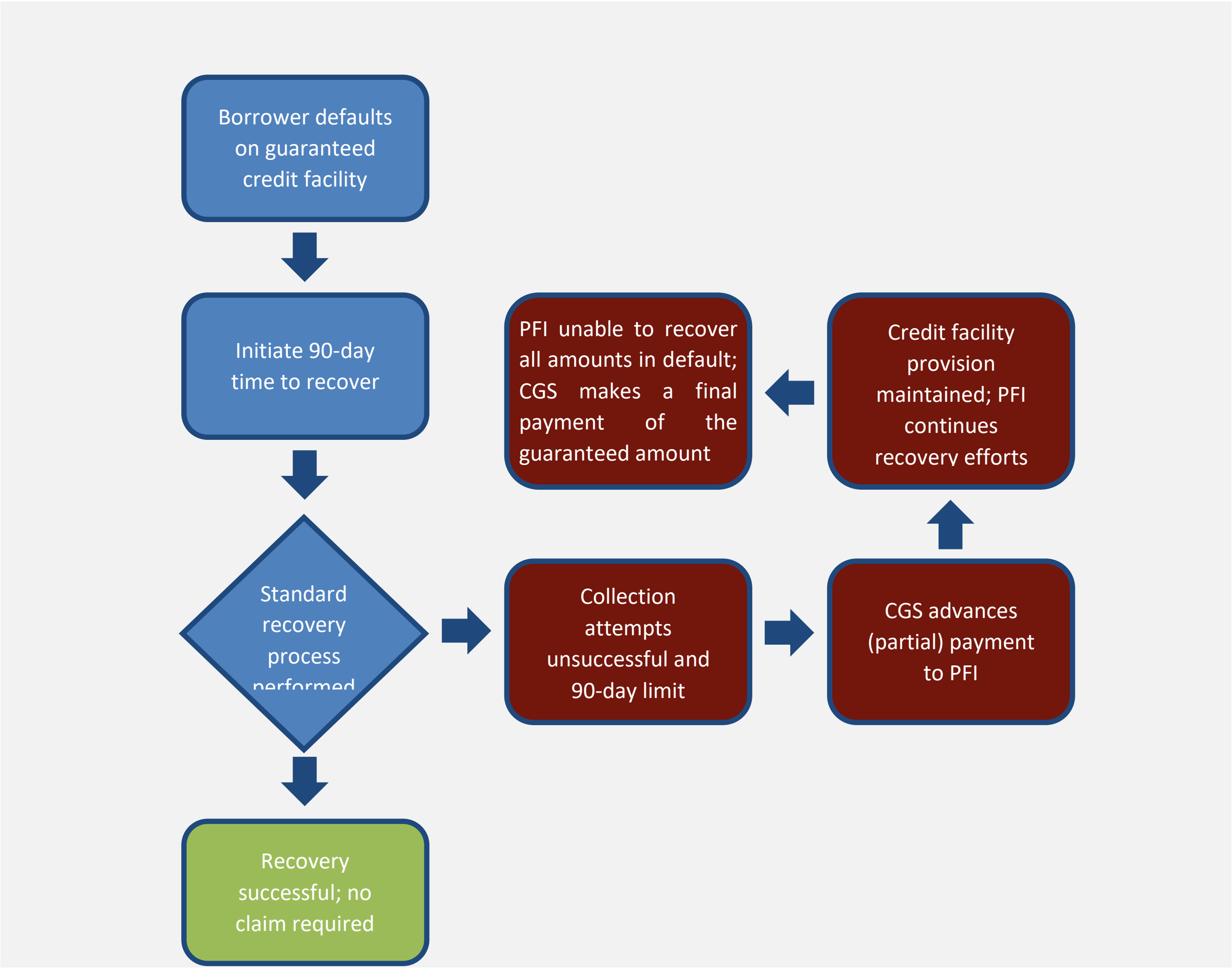
- Any credit facility that is past due must be actively monitored and pursued by the PFI. If full payment of all credit facility instalments and/or fees are not made within 15 calendar days of the due date, the PFI must contact the MSME by telephone and/or physically visiting its premises to determine why payment has not been made and determine when it will be made. The PFI must also contact the MSME in writing requesting overdue instalments and fees to be paid. Copies of the letters should be kept on file.
- If no payment has been received from the MSME within the subsequent 7 calendar days, then the PFI must begin discussions with the owner(s) of the MSME to determine further why payment has not been made, when it will be made and/or establish whether a rescheduling of payments is needed/feasible. This should be documented by the PFI through a call report and kept on file.
- In the event the account remains delinquent even with the PFI following up for payments in accordance with their policies and the process described above, the PFI must write to the MSME at least twice at 30-day intervals during the 90-day period after default demanding payment. Copies of the letters should be kept on file.
- If at the end of this 90-day period, the MSME has failed to respond, the PFI will write to the MSME making a formal demand on the credit facility and advise that if payment is not made, the PFI will execute the recovery process according to the PFIs' internal procedures. The PFI must notify the CGS in writing stating that an event of default on a specific credit facility has taken place and that the account has been downgraded/reclassified. Copies of the letters should be kept on file.
- The above notwithstanding, the credit facility shall be classified as per CBK prudential guidelines on risk classification of assets, provisioning and limitation of interest recoverable on non-performing credit facilities (CBK/PG/04).

4.2 Claims Processes

The PFI must provide the borrower name, registration number, copies of the borrower's note, claim letters, evidence the credit facility was used for the intended purposes, date of default and balance outstanding at the time of the default to the CGS (see full list of requirements below). These documents may be sent via email as a PDF file. The PFI will continue its normal recovery policies and procedures to recover defaulted credit facility balances. In the event that amounts recovered are more than expected after a claim has been processed and a disbursement made to the client, the lender must return the extra funds to the CGS within 15 days of identifying the excess payment.

When a credit facility has been in default for 90 calendar days PFI can claim for payment by the scheme. Subject to validation process of up to 30 days, the scheme will pay the PFI and advance of 25% of the balance outstanding. During the following 90 day period, the lender must try to restructure the credit facility to meet the borrower's cash flow. The scheme will pay the remaining 25% of the outstanding amount after 180 days of the credit facility being in default, subject to a validation process of up to 30 days. The maximum sum payable on a claim shall not exceed 25% of the principal amount.

Figure 2: Recovery & Claims Process



<u>Indicative Claims Processing Procedures at PFI-level</u>

- The PFI may begin the process to call upon the guarantee if the MSME fails to make the due payment in full within 90 days of the due date and no arrangement is made between the PFI and the MSME to resolve the default situation.
- The PFI must have declared the credit facility in default and informed the borrower in writing of the legal steps to be undertaken.
- If any collateral was pledged to secure the credit facility, the PFI must begin legal proceedings to liquidate collateral and recover the debt and have the foreclosure documents accepted by the court before the guarantee settlement.

- Cash or cash equivalent collateral should be set off against the principal amount of the outstanding credit facility.
- The CGS will confirm claim acceptance of the guaranteed principal sum outstanding within fourteen days of receipt of the claim documentation, subject to positive claims validation.
- Advance payment of guarantees will be made within fourteen days of the immediate quarter end.
- If the borrower of a credit facility, guaranteed by the CGS, is claimed then subsequent credit facilities to that borrower or any of their affiliated enterprises would not be eligible for CGS guarantee coverage.
- The CGS should have access to following documents for claims validation purposes:
    - All statements and documents that evidence the efforts exerted for the collection of the credit facility
    - A copy of the credit facility contract between the PFI and the borrower
    - A copy of the statement of account of the borrower
    - A copy of the guarantee application including all warranties, representations and checklists
    - Any other documents deemed appropriate by both PFI and CGS to justify payment of the claimed amount
- The CGS reserves the right to perform a detailed analysis of any claims, thus performing the following procedures:
    - The CGS would confirm that the PFI has met all the terms of the guarantee agreement both in terms of the eligibility of the application and the viability of the original proposal. The CGS would verify that the credit facility was used according to the purpose indicated in the client credit facility application.
    - The CGS would confirm that the credit facility was assessed in accordance with PFI's normal assessment procedures prior to application for the CGS guarantee.
    - The CGS would confirm that all the relevant fees have been paid by the PFI where applicable.
    - The CGS would confirm that the credit facility was not renegotiated before the guarantee was approved.
    - The CGS would confirm that the PFI has not re-scheduled the credit facility without the approval of the CGS.
    - The CGS would confirm the PFI has made all collection efforts required by the CGS.

- The CGS would review the borrower's credit facility file at the PFI including due diligence and documentary checklists to ascertain that procedures certified as having been carried out were in fact discharged, and that documentation on file corresponds to items marked on the checklist.
- The CGS would confirm whether the claim was presented and accepted by the court. In case the credit facility amount is not sufficient to file a court case because it would not be cost effective, PFI will justify to the CGS in writing.

4.3 Debt Collection

The credit facilities backed by the CGS guarantee should be followed up for repayment in accordance with the PFIs' standard credit policies as long as they are at least as aggressive as the guidance described above. If they are less stringent, then the process described above must be followed. This means that the PFI should endeavour to recover unpaid amounts outstanding by liquidating collateral and calling personal and other guarantees that PFI obtained prior to the credit facility being granted. The PFI should exercise due diligence in recovering the amount of the credit facility outstanding and exhaust all legal remedies in pursuit of full recovery of past due amounts. The PFI must update the CGS on a monthly basis of the status of the debt recovery proceedings. Credit facilities for which guarantee claims have been presented to the CGS may not be written off without the consent of the CGS. In the event that the PFI decides not to pursue a claim where the CGS does not agree, the PFI should notify the CGS of its decision and assign to the CGS the right to pursue the claim on its behalf if the CGS does not agree with the PFIs' decision.

4.4 Recovery Proceedings

The PFI should provide the CGS with a full, detailed account of the costs involved in the recovery of collateral. Proceeds of recovery would be applied in the following order: (i) the recovery costs (ii) the principal balance owed, and (iii) interest owed to the bank that accrued during the default period. The principal amount of the credit facility should be paid to the CGS before the defaulted portion of the interest can be recovered. If the credit facility is not recovered within five (5) years of the credit facility falling past due, the PFI may stop reporting on the status of collection efforts to the CGS and would consider the matters related to that credit facility closed.

4.5 Claims Settlement

After a guarantee claim has been validated for compliance, the CGS computes the guaranteed amount due to the PFI by the CGS.

Indicative Claims Settlement Procedures

1. Determine the date on which the credit facility came into default.
2. The outstanding principal balance of the credit facility on this date would be determined as being the starting point of the guarantee claims calculation.
3. The principal amounts of the repaid instalments and collections made after the default must be subtracted from the guarantee coverage amount paid to the PFI.
4. Upon payment of the claim, the amount is entered in the CGS records for defaulted credit facilities, for which the CGS has paid the coverage amounts.

5. Accounting & Risk Reporting

5.1 Accounting & Financial Reporting

Management, Steering committee and stakeholders have to be kept well informed of the performance of the CGS and in particular its financial performance. This needs a proper accounting system and transparent reporting procedures. The quality of the reports is determined to a great extent by the quality of the accounting system, and even more by its reliability. Since the CGS will be implemented by selected financial institutions and managed within a government agency, it is necessary that adequate accounting and financial reporting arrangements are put in place to ensure accountability.

These accounting and financial reporting arrangements relate to the following issues:

- Operation of the CGS Bank Accounts;
- Financial reporting and reconciliation
- Reporting on the size and quality of the guaranteed portfolio
- The liquidity position of the guarantee fund – its capacity to cover its financial obligations in the short and medium term

The CGS will be audited by Auditor General who shall provide an opinion regarding whether its financial statements are free of material misstatements. The Office of the Auditor General shall use International Public Sector Accounting Standards (IPSAS) to the fullest extent possible to provide an accurate financial picture of the organization.

5.2 CGS Risk Reporting Requirements

The CGS should produce periodic reports on its guarantees to keep relevant stakeholders appropriately informed. Such reports may include:

1. Monthly financial and technical reports on guarantees made during the period, including information on products and sectors for which guarantees have been issued, number of jobs affected, funds guaranteed, repayment periods, etc.
2. Monthly reports on repayments made on outstanding credit facilities together with details of any outstanding payments.
3. Monthly reports on delinquent guarantees and the stage of recovery.
4. Monthly reports providing information on the size and quality of the guaranteed portfolio; the liquidity position of the guarantee fund; the profitability of the guarantee fund, and the ability of the scheme to cover costs with its income.
5. Monthly Reports on compliance with set prudential rules (e.g. solvency, liquidity, risk concentration and exposure limits, etc.)

5.3 PFI Reporting Requirements to the CGS

5.3.1 Monthly Reporting on Credit Facilities Outstanding

PFIs should submit a list of all credit facilities on a monthly basis. This report is by credit facility account number and provides the name of borrower, amount of credit granted, outstanding balance and the paid to date. If there are any missed instalments, lender must supply the amount of unpaid instalment, date of first unpaid instalment, number of days in delay, reasons for non-repayment and endeavours for collection. The report will also provide a column for other notes regarding the credit facility. The CGS will develop a template for the report.

5.3.2 Monthly Reporting on Due by Unpaid Credit Facility Installments

PFIs should submit a list of all credit facilities thirty days or more past due on a monthly basis. This report is by credit facility account number and provides name of borrower, amount of credit granted, outstanding balance, amount of unpaid instalment, date of first unpaid instalment, number of days in delay, reasons for non-repayment, endeavours for collection and provides a column for other notes regarding the credit facility.

5.3.3 Monthly Reporting on Claims Paid by Defaulted Credit Facilities

PFIs should inform the CGS of the status of any defaulted credit facility for which the PFI has paid coverage amounts. A report on each defaulted credit facility must be submitted to the CGS until collection of the guarantee payment is recovered by the PFI from the borrower or the PFI writes off the credit facility.

6. INTERNAL AUDIT & RISK MANAGEMENT

6.1 Overview

A robust system of internal controls ensures the CGS functions effectively and efficiently in accordance with its policies and procedures. This is an integral part of the Fund's risk management process, as internal controls serve to mitigate business risks. Internal controls should address the risks associated with the misappropriation of assets, as well as the misstatement of financial information. Internal controls should be clearly defined and identify significant risks and key control activities that mitigate those risks. Internal control policies and procedures should be designed and implemented in accordance with internationally accepted standards, such as the COSO[5] integrated control framework. This framework is designed to help institutions establish, assess and enhance their internal control systems.

Figure 3: COSO Integrated Internal Control Framework

Internal audits of controls shall be performed annually to ensure proper coverage of all relevant risks. A risk-based approach should be used, ensuring that high-risk areas are tested at least once a year, while lower risk areas are tested less frequently. For low risk areas, a rotation plan can be employed that ensures all areas are covered at least once every three years.

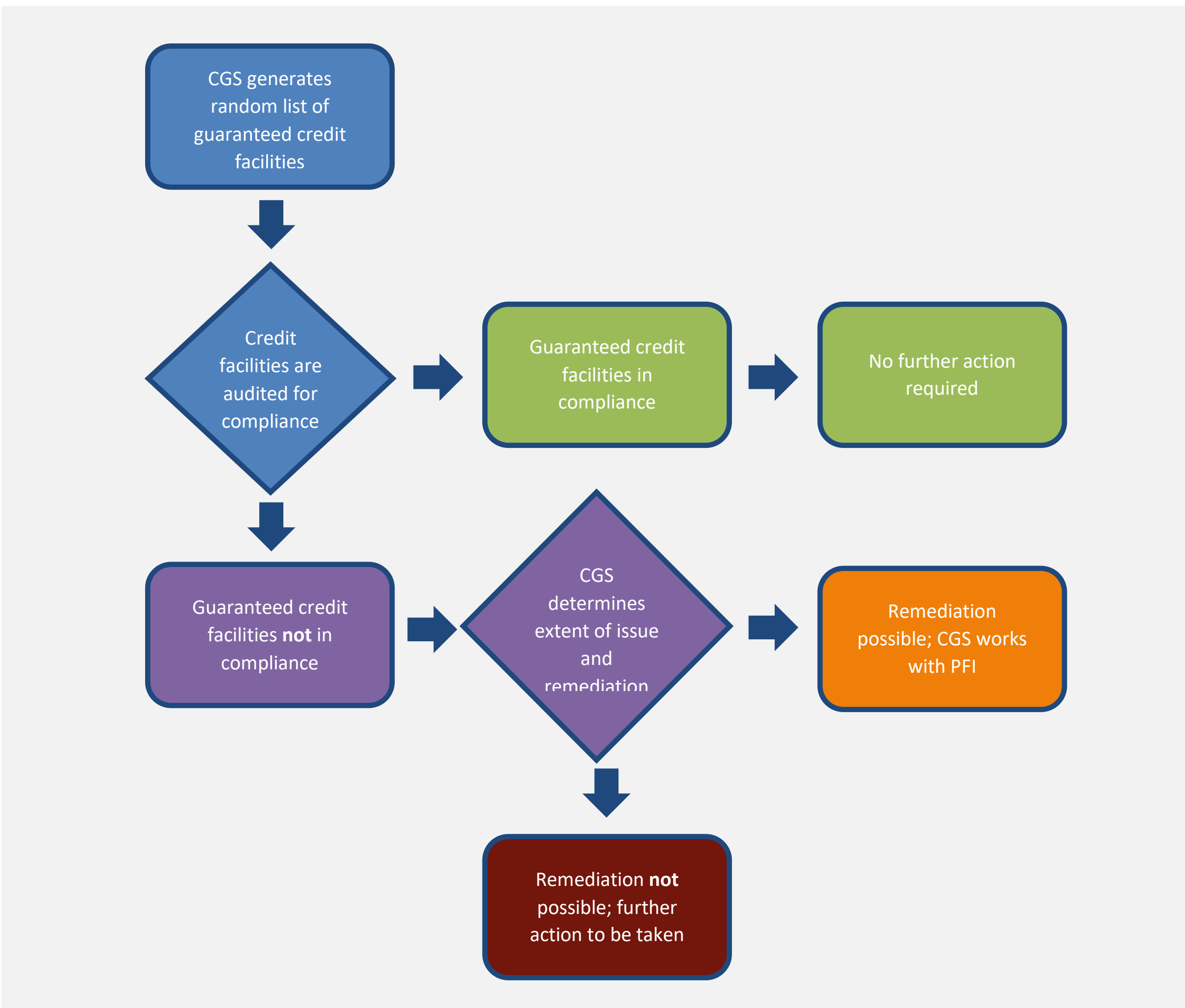
[5] Committee of Sponsoring Organisations of the Treadway Committee

6.2 Post disbursement Compliance Audits

After the credit facilities are disbursed by the PFI, random checks should be carried out by CGS to check for compliance with eligibility requirements and credit facility processing rules by the PFIs. To this end, the CGS will periodically select a random sample of guaranteed credit facilities at PFIs to review following a risk-based approach. If the guaranteed credit facilities are non-compliant, then CGS will work with the PFI to correct the issue. To verify credit facility compliance, the audit shall for example assess the following aspects:

- existence and accuracy of credit facility collaterals
- potential conflict of interest
- PFI has followed the proper approval process in line with risk policies

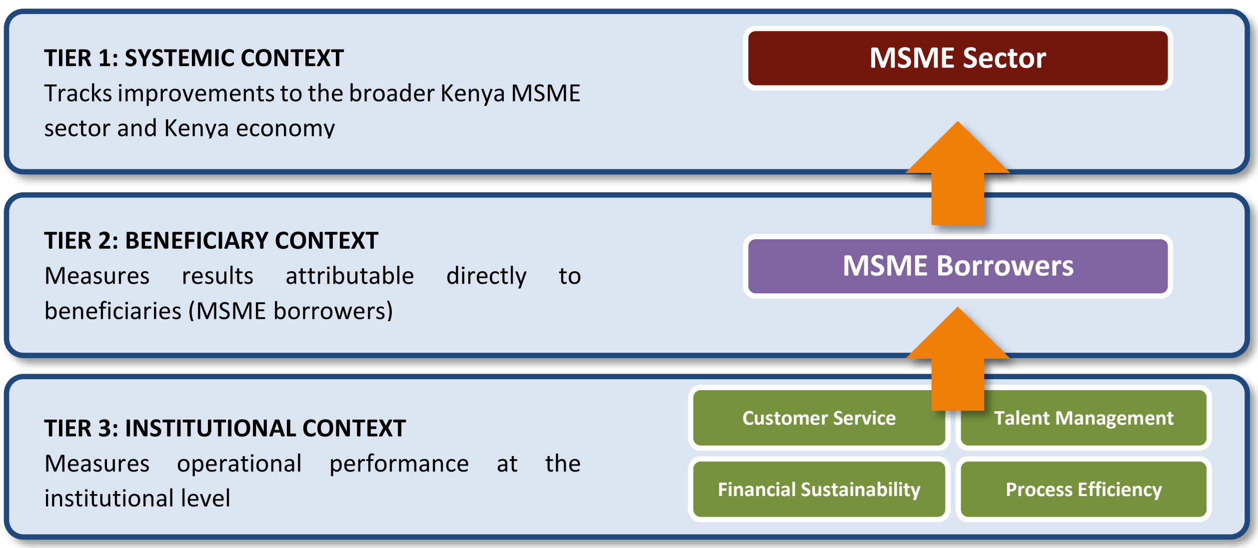
Figure 4: Post disbursement Compliance Audit Process



7. Monitoring and Evaluation

A monitoring and evaluation (M&E) of CGS performances should be established. The M&E would allow for tracking the performance and impact of the CGS's operations. In particular, the M&E framework evaluates the Fund's impact on MSMEs and the Kenyan economy (outcomes) based on Fund activity (e.g., guarantees issued and leverage achieved). Tracking and analysis of the Fund's outputs, and whether they are leading to the intended outcomes, is critical to determine how, why and to what extent the CGS's design and operations are fulfilling the Fund's intended objectives. The M&E framework is meant to be results-driven, with clearly identified and defined key performance indicators (KPIs). If possible, technology-enabled methods shall be used to collect, analyse and report data in order to minimize costs and ensure timely delivery of information.

Figure 5: CGS Results Framework



The M&E framework for the CGS is comprised of three tiers with the goal of monitoring performance by establishing baseline and target values against which progress can be measured. In this framework, the institutional context (operational performance) drives the beneficiary context (results to MSME borrowers), which ultimately impacts the MSME sector at the systemic level. This approach ensures analysis of the causal linkages between inputs, outputs and outcomes over time. The Fund's strategic objectives are meant to inform the key performance indicators (KPIs), which are designed to be realistic translations of the Fund's overall vision and mission. Performance indicators should be SMART (specific, measurable, achievable, relevant and time-bound), thus allowing the Fund to objectively monitor and evaluate its operations.

PART III. GOVERNANCE & STAFFING

1. KEY CONSIDERATIONS

1.1. Guiding Principles

- **Institutional Framework and Governance:** Trust is a key determinant of success. PFIs, consisting of banks and other eligible FIs, must be able to trust that the CGS will deliver on its promises. This trust in turn usually depends on (i) the extent to which the PFIs perceive the CGS to be independent, autonomous, and free from interference; and (ii) the financial viability of the CGS in terms of capital adequacy and liquidity to pay out. Therefore, the CGS must be considered financially sound and financially sustainable (i.e. fees charged by the CGS provide income sufficient to ensure its sustainability) if the goal is to continue providing guarantees going forward. The goal of this scheme is to put money into the business community as quickly and responsibly as possible. Therefore, it is not designed to be sustainable. With a capital contribution of Kshs. 5 billion the scheme can support up to Kshs. 20 billion in total credit facility losses. If additional funding is obtained in future months, it may be appropriate to revisit the sustainability issue, but it is likely that substantial changes will have to be made to the scheme to reach sustainability.

- **Strength and commitment from PFIs:** For an ongoing scheme, only PFIs that meet and continue to live up to a set of strict minimum criteria for eligibility should be allowed to use the CGS. These criteria will look at the financial soundness including performance metrics such as the level of NPLs, profitability, etc. Strict criteria will help ensure sustainability: if poorly run FIs are allowed to participate there is a risk that CGS capital adequacy could falter and perceived higher risk from strong FIs reducing market confidence.
- **Need to avoid Moral Hazard:** A major risk faced by risk-sharing facilities is "moral hazard". Indeed, the existence of the risk sharing may weaken the will and commitment of borrowers to repay and the commitment of PFIs to vigorously collect payment when they know that the guarantee will reimburse a substantial part of the loss incurred. Similarly, the PFIs may also have incentives to submit only "problem credit facilities" to the facility or credit facilities, which they would have financed even without the guarantee, thereby limiting the additionality of the facility from a policy perspective. The CGS must be carefully designed to address this risk. By requiring lenders to submit any credit facility that meets the criteria for a guarantee, the scheme will guarantee the cross section of risks taken by the bank. The fully creditworthy credit facilities and slightly less creditworthy credit facilities will be in the same portfolio. Using a portfolio guarantee with a registration feature does not require that the borrower be informed that the credit facility is guaranteed, reducing the possibility of moral hazard on the part of the borrower.

- **Simplified, quick, and efficient application and claims payout processes:** It is critically important for the credibility and uptake of risk-sharing facilities that credit facility applications are processed expeditiously. Long processing times typically lead to loss of interest by PFIs as well as borrowers. Payouts should be made promptly after a credit facility has defaulted once all the requirements are met. In the interest of time, the scheme will establish manual structures and process guarantee claims as quickly as possible. Encouraging the PFIs to ensure that credit facility files are kept up to date and include all of the items listed above that are necessary for a claims payment will speed the claims process.

2. OVERALL GOVERNANCE STRUCTURE

A dedicated **program steering committee** will oversee the CGS governance. This structure ensures appropriate checks and balances and ensure that lending decisions are made following the best professional standards.

The operating model shall be highly simplified and automated, limiting the staffing requirements and enabling optimal process performances. With adequate automation level the CGS staffing can be maintained at 8 resources, consisting of a project director, a finance manager, two (2) credit officers, two (2) risk officers, one (1) monitoring and evaluation officer, and an administrative assistant. The Program Director will report to the program steering committee which will oversee the high-level strategic issues such as priority sector, risk tolerance etc.

The roles will be distributed as follows:

a. ***Program Director***: responsible for the day to day operations of the CGS. He/she will establish and run the office, hire junior staff, implement procedures for operations, and take any other steps necessary to meet the mission of the CGS.
b. ***Credit officer***: Process new applications, perform financial due diligence, interact with PFIs in case of issues on the application
c. ***Risk Officer***: Conduct credit facility audit, Monitor and assess risk exposures at the portfolio, PFI, and sub-credit facility levels. Monitor CGS risks related to capital adequacy, liquidity, and financials.
d. ***Finance Manager***: Responsible for financial reporting, payment processing, provisioning of CGS portfolio, financial planning and resource mobilization.
e. ***Monitoring & Evaluation Officer***: Responsible for tracking and analyzing the Scheme's outputs, and whether they are leading to the intended outcomes. It is critical to determine how, why and to what extent the CGS's design and operations are fulfilling the Scheme's intended objectives.

ANNEXES

A1. List of Prohibited Business Activities

The following business activities would be prohibited from obtaining CGS support:

a. Production or trade in any production activity deemed illegal under host country laws or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides, herbicides, ozone depleting substances, PCBs, wildlife or products regulated under Convention on International Trade in Endangered Species (CITES)
b. Credit not in compliance with prudential regulations
c. Production or trade in weapons and munitions
d. Projects/businesses that violate workers' rights
e. Illegal activities
f. Environmentally, socially and ethically damaging projects
g. Gambling
h. Drugs
i. Production or trade in tobacco
j. Production or trade in alcoholic beverages (excluding beer and wine)
k. Production or trade in radioactive materials (This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is considered to be trivial and/or adequately shielded)
l. Production or trade in unbonded asbestos fibres (This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%)
m. Drift net fishing in the marine environment using nets in excess of 2.5 km in length
n. Commercial logging operations for use in primary tropical moist forest
o. Production or trade in wood or other forestry products other than from sustainably managed forests
p. Production or activities involving harmful or exploitive forms of forced labour/harmful child labour
q. Production, trade, storage or transport of significant volumes of hazardous chemicals or commercial scale usage of hazardous chemicals (Hazardous chemicals include gasoline, kerosene and other petroleum products)
r. Production or activities that impinge on the lands owned or claimed under adjudication by indigenous Peoples, without full documented consent of such Peoples
s. Real-estate development companies and projects
t. Currency or securities trading

u. Any other prohibited business as may be determined by the Cabinet Secretary for the National Treasury and Planning

A.2 Service Level Agreement Template

A3. List of other Operational Tools / documents Required for the CGS

Draft Compliance & Risk Management Manual, including: ✓ Risk Analysis & Reporting procedures ✓ Internal control procedures
Draft Monitoring & Evaluation (M&E) Manual
Draft Operational Forms
Software ✓ Software can be built in a modular approach with initial focus on credit facility application processing which can be ready within 2 weeks. ✓ Other modules such as (i) PFI risk monitoring, and (ii) Claim processing modules can be added within 2 months

Appendix 2 to RK-FINFA PIM

Rural Kenya Financial Inclusion Facility

RK-FINFA

Mapping of Kenyan Rural Financial Institutions

MAY 2021

1. BACKGROUND INFORMATION

1. The agriculture sector (crop production, animal production, forestry and fisheries) is the mainstay of Kenya's economy, contributing 34.1% of gross domestic product (GDP), and at least 56% of the total labour force employed in the country. It also accounts for up to 65% of merchandise exports. Forestry and fishing activities, including industry-related activities, accounted for 14.1%and 16.3% of this growth, respectively, in 2019[1]. However, there is still a lot of scope for productivity increases in the sector that can contribute to reduction of poverty and transformation of the economy. There is untapped potential in the sector, especially in productivity improvement and value addition in most of the value chains[2] (VC). Most of the value chains are characterised by low yields, variable quality, and poor market linkages. While access to finance can help smallholder farmers address these challenges, the vast majority of smallholder farmers have difficulty obtaining appropriately structured financial services to meet their needs.

2. One of the critical challenges the sector faces is that of limited productivity and market penetration. Small-scale producers' profitability is also impacted by inadequate access to financial services. Improving access to financial services continues to be a work in progress for small-scale farmers in Kenya. The Government of Kenya and many stakeholders in the financial services sector have taken initiatives to improve access to rural and agricultural finance. The objective of the proposed Rural Kenya Financial Inclusion Facility (RK-FINFA) Programme is geared towards deepening access to financial services among farmers and rural sector stakeholders.

3. Smallholders and agricultural small and medium-sized enterprises (agriSMES) typically require: (i) short-term financing for the purchase of inputs and production activities during the farming season and for harvesting (3–6 months); and (ii) medium- to long-term financing for equipment, purchase of assets, farm improvement and renovation/rehabilitation of equipment (1–5 years). Additionally, smallholder farmer producer groups typically require: (iii) short-term trade credit (up to one year) to purchase products from group members; and (iv) long-term financing for equipment and infrastructure.

4. Smallholders who operate in tight value chains – coffee, tea, dairy, and to a smaller extent rice and horticulture – are characterised by strong, consistent relationships with buyers; they often have access to finance, inputs, agronomic training, and other support from the buyers they work with. However, most other smallholders lack these strong relationships with buyers and the support that accompanies them. These farmers primarily grow staple crops, practise small-scale

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[1] Kenya National Bureau of Statistics, Economic Survey, 2020

[2] Value chain – the set of actors (private, public, and including service providers) and the sequence of value-adding activities involved in bringing a product from production to the final consumer. In agriculture they can be thought of as a 'farm to fork' set of processes and flows (Miller and da Silva, 2007).

horticulture (fruits and vegetables), produce cereals, root crops and nuts and operate on small land holdings, and are mainly subsistence in nature. They consume most of their produce and sell the small marketable surplus at the local market or nearest urban centre.

5. Smallholder producers have unique financial needs. Their household cash flows are often cyclical – requiring cash for inputs and other farming needs (such as labour) during the planting, weeding, or harvesting season. They are also required to pay other relatively large household expenses, such as school fees, medical (hospital) bills, at points in the year when household liquidity is particularly low. Yet, they often do not earn the income required to repay these loans until several months later, usually after the harvest. This cyclical nature of financing needs and repayment abilities conflicts with traditional commercial banks, or microfinance or group saving and loan models that are structured around regular repayment schedules.

6. On the supply side, offering financial services to the rural and agricultural stakeholders carries additional risks and is often challenging. Therefore, financial institutions (FIs) or financial service providers (FSPs) need to make well-informed decisions because most small-scale farmers lack the credit history and collateral that traditionally inform financial service provision assessments.

7. Moreover, poor husbandry practices, adverse weather, for example, flooding, drought conditions and climate change, create significant risks for both smallholders and finance providers. Many smallholders have limited knowledge of agronomic best practices and some lack access to high quality inputs – both of these factors can contribute to low yields and revenue. Finally, most smallholders' lack of strong and consistent relationships with buyers contributes to price risk when selling their surplus, which can further jeopardise their credit repayment ability. Therefore, delivering financial products and services to small-scale farmers in rural areas is both challenging and costly to FSPs.

Situational analysis: General landscape/overview of the types of FIs, their numbers, and location

8. This is a situational report on landscaping/mapping/scoping of potential financial institutions (FIs) that could participate in the proposed Rural Kenya Financial Inclusion Facility (RK-FINFA) Programme being prepared and to be jointly financed by the Government of Kenya (GoK) and the International Fund for Agricultural Development (IFAD). The report is an overview of the financial landscape in Kenya and the role that financial institutions can play to unlock the growth potential in enhancing agricultural productivity, and improving livelihoods and food security in the country and ultimately in the agriculture and rural sector.

9. Kenya has a stable and diversified financial sector, comprising 42 banking institutions (41 commercial banks and 1 mortgage finance company), 14 microfinance banks (MFBs), many non-deposit-taking or credit-only microfinance

institutions[3] (MFIs), more than 5,000 savings and credit cooperative societies (Saccos), out of which 173 are deposit-talking Saccos[4]. The MFIs are classified into: (i) microfinance banks, which are deposit-taking and which are regulated by the Central Bank of Kenya; and (ii) the non-deposit-taking/credit-only MFIs, which lend their own funds.

10. Since the first deposit-taking microfinance bank (MFB) was licensed in 2009, the number of MFBs has increased to 14, with total assets of about KES 16.5 billion and deposits of approximately KES 40.2 billion as at December 2018. The credit-only MFBs are non-regulated and there is growing concern in the country on their non-regulated operations, particularly in relation to consumer protection and market conduct. These concerns are amplified by the rapid proliferation of digital lenders, most of which exhibit credit-only practices. Therefore, there have been proposals that these credit-only institutions need to be more closely regulated.

11. The financial inclusion landscape in the country has undergone a major transformation since 2006[5], with formal financial inclusion reaching 82.9% in 2019 from 26.7% in 2006, while complete exclusion has narrowed to 11% from 41.3% in 2006. In addition, the disparities in financial access between rich and poor, men and women, and rural and urban areas have also declined remarkably. The key drivers of these changes include the growth of mobile money, government initiatives and support, and developments in information and communications technology (ICT). It is important to note that the significant reduction in the proportion of the adult population totally excluded from financial services and products is due to the policies, strategies and reforms undertaken by the government, as well as the widespread adoption of digital technology and innovations by financial sector players. These have helped in deepening financial inclusion by enabling the population to overcome infrastructural constraints to access, especially in rural areas.

12. The performance of commercial banks in the country remained stable in 2019. Their income remained broadly unchanged from 2018, with the rate of growth marginally rising to 5.2% in 2019 compared to 4.8% in 2018. The overall income growth in the banking sector, however, masks the diversity evident across individual banking institutions. Among big and small banks, income grew at 9.6% and 10.9%, respectively, while among medium banks, it contracted by 14.6%. However, non-performing loans (NPLs), as a share of gross loans, remains high, still at double-digit levels. By the end of 2019, NPLs as a share of gross loans stood at 12.6% (similar to the 12.7% recorded in 2018.[6]

13. The repeal of capping of interest rates in November 2019 was expected to be a boost to the economy because a free market – where interest rates are set by the

[3] AMFI Report, 2017
4 Annual Supervision Report, 2019
[5] 2019 FinAccess Household Survey
[6] Kenya Bankers Association, State of the Banking Industry Report, 2020

forces of demand and supply coupled with increased competition among commercial banks and among non-bank financial institutions for funding – was expected to set a competitive environment with increased access to credit by borrowers and higher economic growth prospects.

14. Unfortunately, a few months after the repeal of interest rate caps were lifted and as financial sectors and their stakeholders were adjusting to the new interest rate regime, the coronavirus disease (COVID-19) pandemic struck. In 2019, Kenya's economic growth averaged 5.7 %, placing Kenya as one of the fastest growing economies in sub-Saharan Africa, with a stable macroeconomic environment, positive investor confidence and a resilient services sector. The economy had been hit hard by supply and demand shocks on external and domestic fronts, which interrupted its recent broad-based growth path. Apart from the Covid-19 pandemic, the locust invasion, which started early in 2020, had caused a scare in agriculture in the country, causing negative impacts on the food security situation and growth of the agriculture sector. Real GDP growth was projected to decelerate from an annual average of 5.7 % (2015-2019) to around 0 % in 2020. However, it has taken longer than expected to bring the Covid-19 pandemic under control. In fact, the country is in its third wave of the pandemic, which seems to be more virulent and infectious than the previous ones, and the government locked down 5 counties, amongst them Nairobi County, in March). GDP had contracted by 1.0% in 2020, and the country has witnessed a delay in the projected recovery to 5.2% growth in 2021. Internationally, the pandemic has caused a protracted global recession, which has undermined Kenya's export, tourism and remittance inflows. Further tightening of COVID-19 health response measures and weather-related shocks have also disrupted domestic economic activity, leading to fiscal slippages.[7]

2. DETAILED ANALYSIS OF A SPECIFIC CATEGORY OF FIs

a) Savings and credit cooperative societies

15. Co-operatives or cooperative societies have the potential to transform much of rural Kenya in ways that unorganised farmers supplying unorganised markets will never be able to replicate. Around the world in countries ranging from the United States, the Scandinavian countries, Israel and much of Asia, including India and China, cooperatives have been able to lead in the transformation of rural livelihoods.

16. In Kenya cooperatives are classified into two broad categories: financial and non-financial cooperatives. Non-financial cooperatives play a facilitating role in the business chain and do not provide direct financial services. They are found across various sectors of the economy and include marketing cooperatives, producer cooperatives, consumer cooperatives and transport cooperatives, among others. Financial cooperatives are also referred to as savings and credit cooperative societies

[7] Kenya World Bank Update, July 2020

(Saccos). The main objective of Saccos is to meet the financial needs of their membership by mobilising savings and granting loans to the members. Members achieve this objective by pooling their savings and advancing credit, using their deposits as collateral.

17. In Kenya Saccos are classified into either deposit-taking (DT-taking) or non-deposit-taking (non-DT-taking) Saccos. Non-deposit-taking Saccos accept long-term deposits, which are used as collateral that members use to borrow loans against. These deposits cannot be withdrawn unless a member leaves the Sacco altogether. Deposit-taking Saccos, in contrast, perform bank-like functions and accept demand deposits that can be withdrawn from time to time and used to provide credit to members. It is because of this intermediation, and the systemic risks they pose in the market, that deposit-taking Saccos are regulated prudentially by the Sacco Societies Regulatory Authority (SASRA).

i) Deposit-Taking Saccos

18. The Kenya financial services sector is becoming increasingly competitive and technologically sophisticated. It has multiple providers and stakeholders - commercial banks, MFIs, Saccos and digital (mobile money transfer and lenders). There were 172 licensed DT-Saccos operating in the country in 2019. This cluster of Saccos have shown resilience and stability in the provision of financial services in the midst of stiff completion from other types of financial service providers (FSPs). In spite of competition, DT-Saccos continued to show great depth of resilience and stability, as evidenced by their double-digit growth rate in all the key parameters or metrics of performance in 2019. Their total assets increased by 12.4% to KES 556.7 billion, while the total deposits increased by 11.27% to KES 380.4 billion[8].

19. In addition, DT-Saccos have continued to be stable and sound when assessed against capital adequacy (core capital), with their core capital having grown from KES 54.94 billion in 2016 to KES 79.20 billion in 2019. In terms of liquidity, only nine DT-Saccos had a liquidity ratio of less than the prescribed 15%, with the remaining 163 DT-Saccos recording liquidity rations of well above that 15% threshold. This is an improvement from the 25 DT-Saccos that were unable to meet the liquidity threshold in 2018.

20. The performance of DT-Saccos continued to grow, resulting in an increase in gross loans by 12.1% to KES 419.6 billion, while net loans and credit advances constituted 71.9% of the total assets in 2019, and which was largely financed by the non-withdrawable deposit portfolio of the Saccos. On the other hand, deposits grew by 11.3% to KES 380.4 billion in 2019. Indeed, the DT-Saccos' total assets share of the national nominal GDP was 5.6% in 2018, while it was projected that this share

[8] SACCO Supervision Annual Report, 2019

of the national nominal GDP will increase to about 5.72% in 2019, further underscoring the importance of DT-Saccos in the economy[9].

21. A comparison of performance, risk assessment and compliance of DT-Saccos indicates that they are categorised into three groups: (i) the large-tiered banks with assets in excess of KES 5 billion; (ii) medium-tiered Saccos whose total assets are between KES 1 billion and KES 5 billion; and (iii) DT-Saccos whose total assets are less than the KES 1 billion threshold. In 2019, 31 DT-Saccos in the large-tiered Saccos had total assets worth KES 390.29 billion (70.11% of the total assets portfolio for DT-taking Saccos), while the medium-tiered Saccos had 58 Saccos controlling KES 135.70 billion worth of assets and had a market share of 24.38%. The small-tiered Saccos category had 83 Saccos, which controlled only KES 30.72 billion worth of assets and a market of a meagre 5.52%.

22. It is instructive to note that the market share of total assets of the large-tiered Saccos increased by 6.55%, from 65.8% in 2018 to 70.11% in 2019, while the medium-tiered category had its market share reduced by about 11%, from 27.37% in 2018 to 24.38% in 2019 and the small-tiered category suffered the largest decline in market share of 19.2%, from 6.83% in 2018 to 5.52% in 2019.

23. The Sacco Societies Regulatory Authority (SASRA), which is the regulator for these Sacco groups, places DT-Saccos into three categories in terms of total deposits: large-tier Saccos comprise those with deposits of more than KES 5 billion; medium-tier Saccos are those with total deposits of between KES 1 billion and KES 5 billion; and small-tier Saccos are those with less than KES 1 billion of total deposits. As was the case with total assets, the large–tier Saccos increased in number from 13 to 20 and controlled KES 224.75 billion worth of deposits and a market share of 59.08%, while medium-tier Saccos had their numbers reduce from 54 to 53, and controlled assets worth KES 123.73 billion and a market share of 32.52%. The small-tier Saccos had their numbers reduce from 107 to 99, and controlled KES 31.96 billion and a market share of a paltry 8.4%.

24. As was the case with total assets, the largest DT-Saccos saw their market share increase by 8.1% from 54.64% in 2018 to 59.08% in 2019, while the middle-(second) tiered Saccos saw a 8.0% decrease in their market, from 35.35% to 32.52%. The third-tier Saccos saw an erosion of their market share of 16.1%, from 10.01% to 8.4% during the same period.

25. Saccos in Kenya are founded/formed along certain "common bond" characteristics, such as occupation, profession, industry, geographical area of operations, among others. They can be grouped into five main categories based on this classification or clustering: (i); government employee-based Saccos; (ii) teacher-based Saccos; (iii) farmer-based (coffee, tea, dairy, sugar, cotton, horticulture, etc.) Saccos; (iv) private sector employee-based Saccos; and (v) community-based (social

[9] Kenya Financial Sector Stability Report, 2018

association or membership) Saccos. Many DT-Saccos have, in the last decade or so, opened their common bond to membership of a more diverse group of people. However, the bulk of the DT-Sacco membership is still drawn from the original common bond members. This categorisation has been retained by the regulator for the purposes of analysis and understanding the general and individual performance of Saccos in each cluster (even when the composition of membership may have changed significantly). This is important for purposes of assessing the performance of an individual Sacco and the general performance of a cluster of Saccos. This classification/clustering also assists in the analysis and identification of risks associated with a particular cluster of DT-Saccos, as well as the development of mitigation strategies for such risks.

26. The government is interested in having a properly regulated Sacco sub-sector in the country. SASRA continues to do a good job in licensing, supervising and regulating the DT-Saccos. In order to further efforts to fight corruption, reduce financial malpractices and improve the governance of the Sacco sub-sector, the government has proposed several measures. This is in tandem with the government's objective of having a better legal and regulatory regime for this section of the financial services sector. There are several measures that have been proposed towards this end. One of the measures is the development of new rules/regulations to bring on board non-DT Saccos under SASRA supervision. The regulations specified a number of non-deposit-taking back office saving activity (BOSA) businesses as non-deposit taking SACCOs as defined by Section 3(2) of the SACCO Societies Act. These are the non-deposit-taking businesses, popularly known as Back Office Service Activity (BOSA), in which the total non-withdrawable deposits from members is equal to or KES 100 million, BOSA in which the SACCO Society mobilises membership and subscription to its share capital through digital or other electronic payment platforms and BOSA in which the Sacco mobilises membership and subscription to its share capital from persons who are ordinarily resident outside the country. The potential Saccos have been given six months to comply (up to 30th June, 2021), at which time SASRA will start applying the regulations. Already there are about 45 non-DT-Saccos that have shown interest by supplying pre-licensing data and information. However, none have formally made the application. According to SASRA, there are approximately 300 non-DT-Saccos that could potentially be brought under SASRA's purview, according to their unaudited returns.

27. The second new measure proposed is the planned Sacco Central Liquidity Facility (CLF). It will facilitate cooperation amongst Saccos through pooling of liquidity and connected services to enhance the financial soundness and competitiveness of the Saccos as deposit-taking institutions. The guidelines and polices on bringing Saccos together have already been developed. It is worth noting that over 50 Saccos have already shown interest in participating in the facility and are working with the regulator on this initiative. They have already developed by-laws to govern the CLF and shared services business amongst themselves. A Cabinet Memorandum has already been prepared for ministerial consideration and processing. The Office of the Attorney General, in collaboration with the Ministry of Agriculture, Livestock, Fisheries

and Cooperatives (State Department of Cooperatives) will then prepare a draft legal framework to be tabled in Parliament to amend the current Co-operative Societies and the Sacco Societies Act.

Farmer-based DT–Saccos

28. There are 49 farmer-based DT-Saccos, 10 of which account for slightly more than 28% of the current 172 DT-saccos that were licensed in 2019. While the farmer-based DT-Saccos account for 47.8% of total DT-taking Saccos' membership (about 2.25 million members), they only had a market share of 10.2% of total assets and 9.9% of total deposits in 2019. A critical point to note is that there are many employee-based Saccos that provide credit facilities to farmers and other rural enterprises. SASRA is interested in understanding the sectoral performance of Saccos and has commissioned work to this extent.

29. When using total assets and total deposits as parameters, teacher-based- Saccos continue to be the best performing. Their market share in total deposits and total assets increased by 2.84%, from 34.84% in 2018 to 35.82% in 2019 and 2.11%, from 35.93% in 2018 to 36.69% in 2019, respectively. Government-employee DT-Saccos recorded a marginal decrease of 0.78%, from a market share of 38.37% in 2018 to 38.07% in 2019, while the total deposits saw a marginal decline in market share of 0.31%, from 37.67% in 2018 to 37.55% in 2019. On the other hand, the market share of farmer-based Saccos declined by 2.18%, from 10.11% in 2018 to 9.89% in 2019. On its part, the market share of total assets for the same category of Saccos declined by 2%, from 10.39% in 2018 to 10.19% in 2019.

30. The market share of total deposits for private sector employee Saccos saw a decline 0f 4.11%, from 10.21% in in 2018 to 9.79% in 2019, while the market share of total assets saw a 4.41% decrease from 9.51% in 2018 to 9.09% in 2019. Lastly, the market share of community-based Saccos decreased by a marginal 0.78% and their total assets also saw a small decline of 0.31%, from 7.65% in 2018 to 6.48% in 2019.

31. The performance of Saccos is quite often dependent on the performance of the sector, industry, profession, or occupation from which the members are drawn. The picture that emerges from the above analysis is that the best-performing Saccos in terms of assets and deposits are teacher-based Saccos, followed closely by the government employee-based ones. The best performing categories of Saccos are those that draw their membership from public teachers and government employees, whose pay, wages and allowances have risen in the last few years. Their pay, wages and allowances are not so intricately tied to the performance of the sector from which the Sacco members are drawn, or to the industry where they work, or even to the economy as a whole. This is not the case for Saccos that draw their members from farmers, businesses and communities, whose performance is directly affected by the

[10] See attached list at the Annex II

performance of their particular sector and by the performance of the economy generally.

32. The case of farmer-based Saccos is quite challenging given that, according to the Sacco Demographic Survey 2019 conducted by SASRA, 47.81% of the total membership of DT-Saccos is from farmer-based Saccos. Teacher-based and government employee-based Saccos had 16.32% and 16.62% share of the membership of DT-Saccos respectively, while the share of the membership of private sector employee-based and community-based Saccos was 9.86% and 9.38% of the membership of DT-Saccos, respectively.

33. For farmer-based Saccos, matters were made worse by the fact that the country experienced a mixed weather phenomenon, characterised by drought during the first half of the year, followed by high rainfall in the second half of the year. This culminated in reduced production of selected crops and pasture for livestock. Consequently, the agriculture sector's performance decelerated from 6.1% in 2018 to 3.6% in 2019. The value of marketed production at current prices contracted by 6.5%, from KES 498.3 billion in 2018 to KES 465.7 billion in 2019. This could buttress poor performance of the farmer-based case. The situation was certainly made worse in 2020 by the COVID-19 pandemic shock.

34. However, not all is rosy for the rest of the DT-Saccos. The efficient and effective operations of many DT-Saccos is continuously being undermined by the perennial failure by various employer institutions to promptly remit the Sacco deductions by employers to respective Saccos on behalf of the depositors/employees. There has been a drastic increase of 37.4 % in the non-remitted deductions due to Saccos amounting to KES 3.86 billion for the period up to September 2019, from KES 2.81 billion for the period ending in September 2018. The regulator is greatly concerned that over 74% of the total non-remitted deductions in 2019 were owed by public universities and tertiary colleges, yet these institutions serve only 5 key DT-Saccos with huge membership. It is therefore apparent that the financial operations, service delivery, soundness and sustainability of these f5 DT-Saccos, will continue to be hampered in the immediate to short term, unless the trend is drastically changed. If this matter is not sorted out and the non-remitted amounts continue to accumulate, it can cause serious challenges to the confidence of members in the Sacco sub-sector and the financial services sector in the country.

35. While the performance and operations of DT-taking Saccos, have, to a large extent, been desirable, they still face challenges. According to the Supervisory Report (2019), their performance is being undermined by the perennial failure by various employer-institutions to promptly remit employee deductions. The non-remitted amounts have been increasing on an annual basis from KES 2.81 billion for the period ending in September 2018 to KES 3.86 billion (an increase of 37.4%). To make matters worse, over 74% of the total non-remitted amounts in 2019 was owed by public universities and tertiary colleges, yet these employer-institutions serve five 5 key DT-Saccos with huge membership, which greatly affects the capitalisation of

those Saccos and their capacity to serve their members. Indeed the financial operations, service delivery, soundness and sustainability of the affected DT-Saccos, will continue to be hampered in the immediate to short term, unless the trend is drastically changed.

36. The government has directed the institutions and agencies to prioritise the budgeting for, and settlement of, non-remitted Sacco deductions and it is hoped the most affected institutions and agencies, such as public universities and tertiary colleges, shall comply with the directive, so as to reduce, if not to totally eliminate, the perennial menace of non-remitted deductions in the Sacco sub-sector. Additionally, SASRA has issued an advisory note to Saccos on the appropriate administrative measures, which individual Saccos must henceforth put in place in order to reduce these perennial incidences of default in remittances of Sacco deductions.

37. An analysis of the performance of the DT-Saccos based on the original fields of membership and common bonds from where they draw a substantial portion of their membership shows that the teacher-based DT-Saccos registered marginal increase in their respective market share of the total assets and total deposits within the DT-Saccos system. The teachers-based DT-Saccos total asset market share increased from 35.93% in 2018 to 36.69% in 2019, while the total deposits share increased from 34.83% in 2018 to 35.82% in 2019. It is also important to observe that the increase in the market share for teacher-based DT-Saccos was registered despite the fact that the number of DT-Saccos within the system remained the same, at 43 institutions, between 2018 and 2019.

Table 1: Performance of clusters of DT-Saccos based on original area of membership (common bonds)										
Cluster per original common bond of membership	**No. of DT-Saccos in the cluster**		**Total Assets (billions)**		**% of Total Assets**		**Total Deposits (billions)**		**% of Total Deposits**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Government employee-based DT-Saccos	35	36	186.57	209.07	37.67%	37.55%	131.18	144.83	38.37%	38.07%
Teacher-based DT-Saccos	43	43	177.92	204.25	35.93%	36.69%	119.10	136.27	34.83%	35.82%
Farmer-based DT-Saccos	50	49	51.44	56.713	10.39%	10.19%	34.57	37.63	10.11%	9.89%
Private sector-based DT-Saccos	25	24	47.11	50.612	9.51%	9.09%	34.90	37.26	10.21%	9.79%
Community based DT-Saccos	21	20	32.21	36.072	6.50%	6.48%	22.17	24.45	6.48%	6.43%
Total	174	172	495.25	556.71	100.00%	100.00%	341.92	380.44	100.00%	100.00%

Source: Annual Sacco Supervision Report, 2019

38. In order to further deepen the regulatory regime and strengthen the supervision of Saccos, the government in July 2019 issued a policy directive for the establishment of a Sacco Societies Fraud Investigations Unit (SSFIU) to be domiciled within the authority. The objective is to fight corruption and financial malpractices in the Sacco sub-sector. Besides the existing prudential regulatory framework, the establishment and operationalisation of SSFIU for the Sacco sub-sector will go a long way in instilling integrity, accountability, transparency and good governance in the sub-sector.

39. The absence of a functional central liquidity facility for Saccos has for long been identified as the missing financial infrastructural cog in the evolution of the Kenya's Sacco sub-sector, and whose absence has largely contributed to the inefficiencies of Saccos, particularly in the areas of ease of accessibility of their financial services as well as mobilisation of deposits.

40. In order to address this challenge and to further deepen the integration of DT-Saccos into the financial system, the government in 2019 took steps towards the establishment of a central liquidity facility for Saccos in Kenya, which will have the effect of integrating DT-Saccos in to the national payment system infrastructure. The central liquidity facility for Saccos, and associated infrastructural components, such as a shared technological services platform, and access to the national payments services, will greatly improve the capacity of DT-Saccos to efficiently mobilise, retain and intermediate savings and deposits from their membership. The facility will see Saccos lending to one another and many of the DT-Saccos have shown interest in joining it.

ii) ***Non-deposit-taking Saccos***

41. The overriding challenge facing the cooperative movement is to reverse the recent decline in performance, particularly for commodity-based cooperatives. Following the liberalisation of the cooperative sub-sector in the early 1990s, and withdrawal of direct government intervention, many societies found themselves unprepared to cope with the challenges of a liberalised market economy. Poor management systems, including deficiency in financial management skills, precipitated chronic losses and heavy indebtedness. Other factors included a weak capital base due to societies' inability to mobilise adequate resources for investment and low members' equity occasioned by lack of guaranteed returns and poor credit management.

42. In order to further improve the prudence governance of all Saccos, the government has continued to introduce reforms in the Sacco sub-sector. In 2020, the Minister for Agriculture. Livestock, Fisheries and Cooperatives gazetted the Sacco Societies (Non Deposit-Taking Business) Regulations, 2020. The regulations prescribe the prudential and market conduct measures to be complied with by all Saccos undertaking specified non-deposit-taking business, popularly known as Back Office Service Activity (BOSA), which took effect on 1st January 2021. Specifically, they regulations specify that all non-DT-Saccos in which the total non-withdrawable deposits from members is at least KES 100 million, non-DT-Saccos that mobilise their membership and subscription through digital or other electronic payment platforms, and non-DT-Saccos who mobilise membership and subscription from Kenyans living outside the country (popularly referred to as Diaspora Saccos), will be regulated by SASRA. This class of non DT-Saccos must comply with these regulations within six months of the commencement of the regulations 2020, that is, on or before 30th June, 2021. The regulation requires that the Saccos put in place appropriate institutional measures and infrastructure, a management information system (MIS) for the purpose of performing and acting on all transactions and providing the minimum requirements by SASRA, appropriate risk management policies and internal control systems, and suitable organisation, governance and management structures.

43. The government has moved further to regulate the Saccos by tabling the Draft Cooperative Development Policy whose ultimate objective is to bring all the financial cooperatives/Saccos under the regulation of SASRA. Except for the deposit-taking and non-deposit-takin, Saccos discussed above, which are regulated by SASRA, all the other classes of Saccos are regulated by the Commissioner for Cooperative Development (CCD). The import of the draft policy is to expand the reach of SASRA to regulate all Saccos mainly as Saccos expand their services from back office to front office operations, in which case the role of SASRA will be brought to bear. The draft policy proposes the creation of a Cooperative Regulatory Authority for non-financial cooperatives.

44. Smallholder farmers are generally poorly organised, lack transparent pricing, have low technical/husbandry of the commodities they are producing, have low financial literacy rates and have a limited understanding of banking requirements. Therefore, it would be imperative to acknowledge the situation obtaining in the ground with respect to financial service provision. In some cases, FIs have to invest resources in capacity building of farmers in financial literacy or support the hiring of technical extension agents. For example, Tower Sacco in Nyandarua County facilitated an agronomist to be part of the field team to ensure that the farmers who receive financial investments knew what was supposed to be done in order to optimise production, repay the loan and make a profit for themselves.

45. Despite the challenges, Saccos, with their farmer-friendly products, are still among the main financial partners of Kenyan farmers. However, improving the liquidity of both farmer-based DT-Saccos and non DT-taking Saccos can go a long way in improving their capacity and capability in on-lending funds to farmers. Capacity building and policy initiatives are needed to create an enabling environment for innovation to flourish and to address the financial needs of low-income populations and SMEs.

b) Microfinance Institutions (MFIs)

46. The microfinance sector registered 8% growth in total assets, from KES.70.8 billion in 2018 to KES 76.4 billion in 2019. Net advances increased by 6%, from KES 44.2 billion in 2018 to KES 46.7 billion in 2019, while customer deposits increased by 7%, from KES 41.0 billion in 2018 to KES43.9 billion in 2019. This growth was attributed mainly to increased demand for credit by the various economic sectors and the usage of technology as a lending platform, with lending remaining the single largest activity undertaken by microfinance banks, as the net loan portfolio accounted for 61% of microfinance banks' total assets. The growth in deposits was due to deposit mobilisation through agency banking and mobile phone platforms, as well as expansion of branch networks across the country. Customer deposits and borrowing were the main sources of funding, accounting for 58% and 20% respectively of microfinance banks' total funding sources (Banking Supervision Annual Report 2019).

(i) Deposit-taking MFIs

47. Kenya has three large MFB's including Kenya Women, Faulu and Rafiki, three mid-sized including Caritas, Sumac and SMEP and smaller ones like Key, Uwezo, Maisha, Century, U&I, Daraja and Choice. Muungano the new entrant was registered in October last year. In terms of market share, there were three large microfinance banks with an aggregate market share (comprising assets, deposits, capital, number of active deposit and loan accounts) of 84.6% in 2019. Kenya Women's Finance Trust (KWFT) had the largest share (39.2%), followed by Faulu MFB (36.9%) and Rafiki MFB (8.5%). The 5 medium microfinance banks with a combined market share of 13.9% were SMEP MFB (4.2%), Maisha MFB (3.4%), Caritas MFB (2.5%), Sumac (2.3%) and U&I MFB (1.1%). In addition, there were 5 small MFBs with an aggregate market share of 1.6%. Maisha MFB made a seven-fold increase in market share from 0.5% in 2018 to 3.4% in 2019.

48. Microfinance banks (MFBs) are deposit-taking MFIs. They are regulated by the Central Bank of Kenya through the Microfinance Act, 2006 the Microfinance (Deposit-Taking Microfinance Institutions) Regulations. The MFIs have promoted financial inclusion, which in turn has assisted the poor to build assets, extend their financial depth and diversity, and improve the range of tools available for financial intermediation in the country.

49. The non-deposit-taking MFIs, otherwise known as credit-only MFIs, are some of the largest microfinance providers in the country. The category remains unregulated though the Microfinance Act 2006 mandates the Minister of Finance to issue regulations for this category.

(ii) Non-Deposit-taking Microfinance Institutions

50. A discussion on the financial landscape in Kenya cannot be complete without looking at the role that microfinance institutions (MFIs) play in deepening financial inclusion in the country. In Kenya, MFIs are classified into: (i) deposit-taking MFIs, which are also called microfinance banks (MFBs), which are regulated by the Central Bank of Kenya (CBK); and (ii) non-deposit-taking MFIs, also called credit-only MFIs, which are non-regulated.

51. There are 31 credit-only MFIs in the country, out of which 10 (32.25%) have rural branches. These are Longitude, Neema Heep, Vision Fund Kenya, Yehu, Juhudi Kilimo, Jiweze, Hand-in-Hand, Bimas, ECLOF Kenya and SISDO. In total, the 10 MFIs have 163 fully-fledged branches in the country. ECLOF Kenya is the largest credit-only MFI in the country, with 42 branches spread across 33 of the country's 47 counties. Juhudi Kilimo has the second largest branch network, with 39 branches in

28 counties after Kenya Women Finance Bank. These MFIs provide asset-based loans and basic business and finance training to smallholder farmers and enterprises that allow the latter to purchase wealth-generating financial solutions for their agribusinesses. Microfinance in Kenya was started by K-Rep Bank (now Sidian Bank) and has since been spun out into a sustainable non-bank financial institution (NBFI). Table 2 below summarises the MFIs and their branch and county coverage in the country.

52. Out of the 10 credit-only MFIs which have a rural network, 8 (80%) have agricultural loan products and 156 branches in the country. ECLOF Kenya has many agricultural products in many value chains such as bananas, dairy, fruits, oil seeds, fruits, vegetables and soya beans. The second largest, Juudi Kilimo, has Kilimo Fresh: Horticulture Product, a loan accessible to smallholder farmers in the horticulture crops value chain. The purpose of this product is to allow borrowers to: a) purchase farm inputs; b) acquire labour and services; c) purchase equipment; d) Construct structures; e) gain working capital; f) procure Transport; and g) procure water and storage facilities. The benefits include a favourable grace period, technical assistance, market linkages, and client training.

53. In terms of county coverage, Kiambu County has the largest number of branches of credit-only MFIs with 12 rural branches, followed by Tharaka–Nithi (11), Narok (10), Meru (9), Machakos (8) and Mombasa, Makueni, and Siaya with 7 each, with the rest having between 1 to 6 branches. The distribution of the MFIs and their branch network is shown in Table 2 below.

Table 2: Distribution of MFIs and their branch network in counties

Credit-only MFIs	**No. of branches**	**County presence**
ECLOF Kenya	42	33
Juhudi Kilimo	39	28
Bima	22	13
Hand-in-Hand	20	14
Yehu	14	7
Vision Fund	13	12
Longitude	5	4
SISDO	1	1

Source: Association of Microfinance Institutions, 2021

c) Development Finance Banks

Agricultural Finance Corporation

54. The Agricultural Finance Corporation (AFC) is a wholly government-owned development finance institution (DFI), established in1963, primarily to provide credit facilities to the agricultural sector. However, its agricultural credit product policy and structure somehow mirror those of commercial banks. Therefore, given the overwhelming need for credit, this corporation has fallen short of discharging its mandate effectively. Its main product is crop loans (seasonal credit), although it has loan products from livestock industry and for farm development. For a long time the AFC was lending to individual farmers but in the recent past it has ventured into group lending through Saccos. This has significantly improved its outreach and the loan repayment capacity while also considerably bringing down the level of its non-performing loan portfolio.

55. AFC provides development loans for farm purchase and infrastructure for irrigation and livestock. It also provides seasonal crop loans, which are loans that are provided for the production of maize, wheat, potatoes, rice and other foods crops that have a maturity of not more than 12 months, and agribusiness loans designed to benefit agri-business traders. It is meant to provide start-up capital for those seeking to start farming, or are engaged in agricultural microenterprises; and microfinance group loans (a micro-credit facility) targeting groups trading in agricultural produce and agricultural inputs, particularly the youth and women who have no tangible security to secure credit. The Stawisha group loan is in 3 levels and allows groups to access a higher amount as they successfully grow their business. Horticulture and floriculture development loans and cash crop loans are loans to finance horticultural and floricultural projects and production of tea, coffee, sugarcane, pyrethrum, cashew nuts, citrus, mango trees, bananas, stevia and other cash crops. Machinery loans are for the purchase of farm machinery to facilitate production and transport of farm produce.

d) Government funds targeted at women and youth

56. In addition to the commercial banks, Saccos and MFIs, there are government funds targeted at women, youth and persons living with disabilities. This is part of the Vision 2030 flagship programme aimed at enabling women, youth and persons with disability to access finances to promote businesses and enterprises at the constituency level, thereby enhancing economic growth towards the realisation of the same and the Millennium Development Goals 1 (eradicate extreme poverty and hunger) and 3 (promote gender equality and empower women).

Given their importance in agricultural production and family food security, it is important to improve financial access among rural women. Women tend to seek smaller amounts of finance than men, so savings and group lending are particularly important. And given the growing youth population in Kenya, special efforts have been made to help rural youth engage productively in rural and agricultural businesses. Developing young rural and agribusiness entrepreneurs requires a holistic support, including access to business training and technical assistance, coaching and networking, in addition to access to financial services (ideally starting with savings and financial education).

i) Women Enterprise Fund (WEF)

57. The Women Enterprise Fund is an initiative of the Government of Kenya that was established through Legal Notice No. 147: Government Financial Management (Women Enterprise Fund) Regulations, 2007. The Public Finance Management Act, 2012 categorises the organisation as a National Fund. The Fund is a Vision 2030 flagship project under the social pillar that seeks to make fundamental changes in four areas, namely, Opportunities, Empowerment, Capabilities and Vulnerabilities. The Fund contributes towards the 1st, 2nd, 5th, 8th and 10th Sustainable Development Goals, namely, No Poverty, Zero Hunger, Gender Equality & Women's Empowerment, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All, and Reducing Income Inequalities.

ii) Youth Enterprise Development Fund

58. The Youth Enterprise Development Fund (YEDF) was established through the Public Financial Management Act (Youth Enterprise Development Fund) Regulations in 2006 and transformed into a state corporation in 2007. The Fund's objective is employment creation for the youth and it is tasked with promoting enterprise development as a key strategy towards increasing economic opportunities, and the participation of youth in nation building.

59. The specific objectives of the Fund are to (i) provide funding and business development services to youth-owned or youth-focused enterprises; (ii) provide incentives to commercial banks through appropriate risk mitigation instruments to enable them to increase lending and financial services to youth enterprises; and (iii) provide loans to existing microfinance institutions, registered non-governmental organisations involved in micro financing, and savings and credit cooperative organisations for on-lending to youth enterprises. The YEDF uses a revolving fund model for lending.

iii) UWEZO Fund

60. The Uwezo Fund was established under the Public Finance Management Acts (Uwezo Fund) Regulations in 2014. It is a flagship programme of Kenya's Vision 2030 aimed at enabling women, youth and persons living with disabilities (PLWDs) to access finances to promote their businesses. The financing is mainly through revolving funds aimed at women and youth groups. 70% of the funds are targeted at these groups while 30% at targeted at men or those older than 35 years. The

groups must be registered by the Department of Social Services, the State Department of Cooperatives or the Registrar of Societies. Individuals do not qualify for membership or to receive Uwezo funds. The groups can on-lend the funds they receive at an interest to their members. Members make monthly contributions to the groups, which are later used as qualification for loans, which ranges from KES 50,000 to KES 500,000 per group. Groups are given a grace period of six months to start paying the loans and should repay the loan in 24 months (after the end of the grace period).

e. Digital finance

61. The mapping of financial services in Kenya cannot be complete without mentioning the role that digital technology has played in deepened financial inclusion in the country. M-Pesa was first developed as a mobile money transfer platform in 2007. The platform has since revolutionised financial inclusion in Kenya and the technological platform has enabled financial transactions with ease and in real time efficiently.

62. Other products have been developed and rolled out on this platform, providing a virtual savings network and a virtual system of applying and receiving short-term credit. The platform has developed in four stages of a virtuous process: from a payment's platform to a virtual banking and saving services, to a credit supply platform and finally to a platform for cross-border payments/transfers and international remittances.

63. In the beginning, M-Pesa was viewed as a technological platform that would allow a menu of financial services that would be offered to Kenyans for money transfers. However, it has developed into an ubiquitous platform that has driven financial inclusion, in effect making the mobile phone not only an instrument of communication, but also an efficient and effective tool for providing a wide range of financial services, such as money transfers, including transfers to other users, payments for goods and services, conversion to and from cash, payments for products and services, and virtual savings accounts in commercial banks, Saccos, MFIs/MFBs, taking credit and harnessing information and demonstrating the power of big data. M-Pesa now also operates as a channel of credit supply by commercial banks, MFIs and Saccos.

64. In addition to domestic financial services, M-Pesa allows users to send and receive cross-border remittances by using their mobile phones. M-Pesa and similar digital financial services represent a significant improvement in the national payments technology, reducing transaction costs and lowering the barriers to entry into the formal financial system. The financial institutions (FIs) in the country have embraced the M-Pesa platform to manage micro accounts, build customer deposits, and broaden their customer network. This enables users to store value on their mobile phones. In effect the evolution of M-Pesa from a mere payment service to an access point for a wide range of formal financial services has been essential in increasing

financial inclusion. Today, most Kenyans are able to access their bank accounts, save money, buy insurance, and take out credit using their mobile phones.

65. The use of mobile financial services allows banks and telecommunications companies to gather transactions and savings data from customers. This in turn allows financial intermediaries to evaluate customer behaviour in order to generate individual credit scores and customise the price of credit. In the past the lack of collateral acted as a major obstacle to credit access for many would-be borrowers. Leveraging big data as a substitute for collateral allows banks to undertake sophisticated risk assessment and extend credit to a much greater share of the population.

3. DRAFT CRITERIA FOR SELECTING/QUALIFYING FOR FIs TO PARTICIPATE IN RK FINFA

66. The sustainable transformation of the economy lies in the adaptation of climate change mitigating innovative technologies, which include interventions to promote clean energy, such as energy-saving jikos, solar energy, biogas production, soil conservation and water harvesting technologies, climate change adaptation/mitigation, improved environmental management, and improved efficiencies in the use of natural resources. The smallholder agricultural development and smallholder and microenterprise investments that qualify for green lending would include efficient water use (drip irrigation/sprinkler or micro-jet systems); flood protection measures (physical and biophysical); climate resilient infrastructure/increased robustness of infrastructure; climate smart farming (including drought or flood tolerant inputs); soil and water conservation measures; renewable energy; water harvesting/water storage systems; energy efficient systems; agro-forestry and afforestation/reforestation; reduction of post-harvest food losses; rural insurance products; as well as cleaner transport solutions. The Rural Kenya Financial Inclusion Facility (RK FINFA) proposes to support such interventions that will contribute to sustainable rural transformation, growth, and income generation. This could be done by improving to access to finance provided by Saccos and MFIs that are working to alleviate the liquidity constraints of non-bank financial institutions and that are working with smallholders and rural micro-enterprises, and by promoting and encouraging small-scale farmers and micro-firms to invest in climate-smart and environmentally friendly activities (such as the ones mentioned above).

67. This financing will provide wholesale capital to Saccos operating in rural areas and MFBs/MFIs for on-lending to the smallholder sub-sector and rural micro-enterprises to support climate-smart agricultural interventions. The funds will be managed by a commercial bank to provide capital to the Saccos and MFIs/MFBs, which will meet an eligibility criteria to be developed by the project. The selection of the host institution will be finalised after the approval of the RK-FINFA financing package by the GoK and IFAD. The selection criteria will, among others, include:

i) Summary of performance information based on audited accounts and other reports, and proof of financial soundness of the institution;
ii) The participating financial institutions (PFI's active rural and agriculture sector portfolio: The financial institution (FI) should have a rural branch network, an agent network in rural areas, or a strong mobile banking platform. They are therefore more likely to consider partnerships with last mile projects such as the proposed RK FINFA;
iii) The PFI's strategy, opportunities and obstacles for the expansion of inclusive agriculture and rural portfolios: FIs with stated interest in agriculture or bottom of the pyramid (BoP) clients in rural areas are often looking for cost effective methods to increase market share in these areas. Access to rural populations would be a key factor in financial services delivery;
iv) The PFI's current sources and cost of liquidity;
v) The PFI's demand and capacity to invest social and especially green financing;
vi) Availability of suitable lending products for RK-FINFA target groups: FIs with a history and culture of innovation that is reinforced by senior management FIs that are rooted in a culture of innovation are likely to have less rigidity in their structure, a greater ability to design new products, and more willingness to understand new customer segments, such as smallholder farmers;
vii) The PFI staff capacity;
viii) Quality of the PFI's management information system (MIS) system and the PFI's ability and willingness to submit the required regular performance indicators to RK-FINFA during implementation;
ix) Proof that the PFI needs the increased investment from RK-FINFA;
x) Technical services requirements and opportunities for the PFI to upgrade agriculture and rural banking as well as digital tools; the PFI's ability to reach smallholders, women, youth and other interest groups using tailored products e.g. the Muslim/Sharia-compliant products; and
xi) Demonstrate that they have robust systems (e.g., IT, MIS, investment in risk management, etc.).

4. PROFILES OF MICROFINANCE INSTITUTIONS (MFIS)

68. The Central Bank of Kenya proposes to start vetting shareholders in microfinance banks who own at least a 10% stake, if proposed regulations seeking to boost governance are adopted. The regulator says in the draft Microfinance Bill, 2019 that people holding at least a 10% stake will be regarded as significant shareholders. This is the first time the regulator has defined a significant owner of microfinance banks and upgraded the current law that only limits individual ownership at 25%.

i) Kenya Women Microfinance Bank

69. Kenya Women Microfinance Bank (formerly known as Kenya Women Finance Trust or KWFT) is a tier 1 microfinance bank offering banking services that include both savings and credit products that cater for the needs of micro, small and medium-sized entrepreneurs. It has a branch network of 241 branches that operate in 45 of the 47 counties and 80% of its operations are in rural areas. The bank predominantly targets women, which is expected, since its history is founded primarily on the economic empowerment of women through access to finance. Although its main focus is not necessarily on agriculture, it has increased its interest in lending to agriculture and has a diversified menu of profits for the farming community. It is the leading and the largest MFI that has a great command in the market share, with over 800,000 clients across the country. Currently its products and services are open to organised groups, organisations and individuals.

70. The total income of the bank rose from KES 5.985 billion in 2018 to KES 5,982 billion in 2019, while its net loss dropped from KES 729.56 million to KES 401.59 million (a decrease of about 45%). Its total assets increased from KES 29.76 billion to KES 30.61 billion, while its total liabilities increased from KES 25.51 billion to KES 36.77 billion in the same period. Its liquidity ratio improved from 20.5% in 2018 to 24% in 2019, while its non-performing portfolio improved from KES 52.18 million in 2018 to KES 113.0 million in 2019.

71. The bank plays a key role in supporting the smallholder farmers in their agribusiness operations through offering credit facilities and training to boost their economic value and to ensure food security both at the household and the society level. The bank intends to deepen its agriculture lending and has a strategy to increase agricultural lending to 10% of its overall bank portfolio. In order to achieve this, the bank has developed an agribusiness strategy, and created an agribusiness department with a detailed programme on staff capacity building. It also has a management information system (MIS) in place to track deposits, credit facilities and liquidity; these reports can be customised as the need arises.

72. The bank would be willing to participate in any initiative, programme, or project aimed at increasing agriculture lending and to finance the expansion of its agribusiness product offering. Some of the challenges the bank has faced in lending to farmers, agriSMES and MSMEs in the rural and agriculture sectors include high cost of funds and the cost of delivering financial services, lack of adequate market linkages and non-predictability of the agricultural markets, and limited technology. Therefore, the bank is required to invest in technology to deliver these services to rural populations, which can be quite expensive and a high credit risk due to production risk, market risk, weather risk etc. In order to mitigate some of these challenges, the bank has provided micro insurance (agriculture insurance), has continued to build the capacity of staff for agricultural lending, and has continued to mobilise funds for on-lending and entering into partnership and alliances with other institutions and organisations.

73. The bank provides a wide range of agribusiness products for both savings and credit facilities and has a unique business model for both groups, and individual and SME clients, and has the capacity to absorb additional funds that can be targeted at farmers, especially smallholder farmers. Some of the financial services and products offered by the bank include:

- Dairy farming loans that enables dairy farmers to invest in high breed dairy cows.
- Maziwa Plus Loans to facilitate dairy groups/ associations, societies, individuals and dairy companies to access loans for dairy production and value addition equipment, including buying additional cows and chilling equipment.
- Green House Farmers Kit is a loan facility that enables farmers to acquire a complete farmer's kit that provides modern farming solutions. It includes quality seeds as well as advanced technology adjusted to customer needs and capacity.
- Dairy goat farming that supports dairy goat farming by enabling farmers to purchase quality dairy goats.
- Aquaculture (fish farming) loans that are input loans offered to clients for excavated ponds or liner ponds as well as affordable fingerlings.
- Apiculture (bee-keeping) loans that finances modern bee keeping through the purchase of improved hives and other bee-keeping equipment.
- Agricultural input loans are a product targeting farmers to help them acquire quality inputs for their farming activities affordably.
- Agro-dealer loans targets financing of agro-dealers involved in agricultural value-chains, such as agro-vets, commodity traders, etc.

74. The bank participated in the PROFIT Programme implemented by the national Treasury, which injected KES 205 million in 2012 for on-lending to farmers and other players in the agricultural sector. Since agricultural lending was not one of the bank's core areas, it started by developing agricultural products. Luckily the programme had a technical assistance package which helped in building the capacity of the staff to develop an agricultural strategy, policy and operational manual. Initially the bank started by lending to dairy farmers but later expanded to crop farmers and other players, such as input suppliers. By 2019 the bank had lent KES 1.9 billion, which decreased to KES 1.5 billion the following year due to the COVID-19 pandemic.

75. Of importance to note is that the bank seeks to improve its green finance footprint by providing loans for solar lighting solutions and biogas to farmers to enable them to purchase bio-digesters, to use clean cooking and lighting in order to reduce costs and save time,, to reduce indoor and environmental pollution, to use slurry as fertilizer and to improve the lifestyles of farmers.

76. In addition to the bank's support to farmers, it has also partnered with other organisations. It has signed an agreement with the Feed the Future Kenya Crops & Dairy Market Systems Activity (KCDMS), a United States Agency for International Development (USAID) - funded programme to extend tailored financial services to farmers in Busia and Homa Bay counties. The partnership is intended to benefit at

least 10,000 farmers in both counties within three years. To achieve this target, Faulu Kenya is working with farmer groups, with each group having between 30 and 50 farmers. The bank aims to recruit 100 groups annually over the three-year life cycle of the project. Under the partnership, farmers will also benefit from training, capacity building and market access.

77. The outbreak of the COVID-19 pandemic has affected MFIs adversely. The impact on the MFIs' business was significant. The bank was on a recovery path when the pandemic struck. The measures taken by the government to mitigate the effects of the pandemic included movement restriction, restricting of gathering of people, imposition of curfews and closure of business premises, which had a far-reaching impact on all sectors of the economy, from hotels, transport, construction, and MSMES, which are the MFI's main clientele. The effects of these measures was that the bank was unable to meet clients or disburse and collect loans for three months from April, May and June 2020. The liquidity constraints hampered operations of the bank's business. In the meantime the bank gave lenders moratoriums, which meant additional costs in terms of interest payments.

78. Some of the negative impacts of the COVID-19 pandemic on the bank include reduced interest income, and reduced loan uptake, reduced cash flows. The overall loan book reduced significantly from 2019 to 2020. In numerical terms, the loss before tax increased by 73%, from KES 401 million in 2019 to KES 1.485 billion in 2020. Net interest income reduced by 29%, t from KES 3.513 billion to KES 2.728 billion, while impairment losses increased by 98%, from KES 11 million to KES 642 million in the same period[11].

79. However, business operations started to recover in July 2020 and the MFI undertook strategic changes to ensure that it could endure the COVID-19 pandemic. These changes include a determined shift to use digital technology to deliver services, cost management, revamping of the products and services, mobilization of savings and building strategic partnerships.

ii) FAULU MFB

80. Faulu Microfinance Bank, a Tier 1 microfinance bank, is part of the Old Mutual Group. It provides business training for its SME and individual customers to empower them with skills to grow their businesses. It was the leading microfinance bank in profitability and deposits in 2019. Its profit before tax recorded in 2019 was KES 482 Million, which was up by 76% as compared to 2018 when the bank recorded a profitability of KES 287 million. The bank's balance sheet closed at KES 29.7 billion, up by 9% compared to KES 27.2 billion in 2018. Gross loans and advances to customers increased by 10% to KES 21 billion while customer deposits were up by 8% to reach KES 20 billion. The liquidity ratio closed at 26% on account of increased customer deposits, while the bank's capital position remains strong with all metrics

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above the regulatory thresholds. The core capital to risk weighted ratio of 15.5 % was lower than the prior year when it was 16.9%. This was driven by higher profits and high-risk weighted assets, which improved from 13.07%.

81. In addition to lending to individuals, the MFB also offers wholesale lending services to Saccos and MFIs, with rural clients as the ultimate beneficiaries, based on portfolio performance review of the existing book, full security for the loan and pipeline of potential clients. The interest rate charged is dependent on the level of engagement, ranging (currently) from 7% to 11%, with the level of risk exposure being the biggest determinant. The Saccos and MFIs are free to set their own interest rates when they issue the loans from these funds to their clients (smallholders, SMEs.). However, the intermediary party is free to set the interest rate, with Faulu making recommendations for the same.

82. Faulu Bank participated in the PROFIT programme financed by IFAD and GoK. It has received a credit facility (CF) of KES 200 million and leveraged it to KES 1 billion. It loaned the money to about 13,764 beneficiaries. The loan amount also helped to stabilise its operations. The loan amounts given and the number of loan beneficiaries increased significantly after the bank was given capacity building training. During these trainings, the financial institutions were supported to develop specific products aligned to the agricultural value chain actors.

83. Faulu believes that the resources may have contributed to increased incomes and food security among the beneficiaries. Outcomes from the farmer group model showed that a significant number of beneficiaries not only gained valuable incomes but also showed tremendous resilience. This was evidenced by the fact that a majority of the beneficiaries were still able to generate money from their business, provide adequate food for their families, and still had their assets acquired before project completion. In the PROFIT programme, the identified four value chains, namely, cereals, dairy, horticulture and livestock, revamped the products on these lines. The use of aggregators gave the bank and farmers confidence on the marketing of the produce.

84. The bank has an array of products directed towards wholesale lending and agribusiness value-chain clients in its SME and agribusiness products, which include: Kilimo bora loans that are targeted towards groups and individuals for all agribusiness activities; Maziwa bora loans that address the financing needs of dairy farmers, cooperatives and Saccos; and Nafaka loans, a financial solution that meets the needs of cereal farmers, groups, farmer societies and Saccos and that are structured to meet seasonal and financial cycles. The bank is increasing its agricultural lending portfolio and towards this end it has a fully-fledged department for institutional banking and a treasury that oversees deposits and the liquidity aspect of the bank. Through training of the bank's staff internally and by various partners, the bank has now revamped agriculture lending around four value chains, which include, cereals, livestock, dairy and horticulture. The proposition is centred on the aggregator model (cooperative, large buyer of the produce, SME, CBO, a factory etc.). The merits of

the aggregator model are its ability to reach a larger/bigger clientele base and to ensure that payments are processed centrally, thereby reducing transaction costs. The model also ensures that capacity building can be conducted centrally. Other benefits include offering agriculture insurance through its linkages with UAP Insurance; payments are channelled through the borrower's account in Faulu, further securing its interest and de-risking its portfolio.

85. Some of the challenges in lending to agriSMES, and agriculture sectors include information asymmetry/gap among farmers, financial illiteracy/understanding on finance needs and loan repayment structure among smallholder farmers, on boarding and remoteness of farmers, inadequate market linkages and locking of repayments between the farmer, off-taker and the bank. The challenges faced are generic and cut across the industry in that farmers will opt for substandard farm inputs and thus poor yield. The farmers also lack information about crop insurance, which would cushion them in case of weather perils. However, there are interventions that have been put in place by the bank. These include partnerships with organisations that provide inputs and offtake products, aggressive farmer training and working with agronomists in the field.

iii) ECLOF Kenya

86. ECLOF Kenya is currently a credit-only microfinance institution providing financial and related non-financial services in Kenya and to all sectors of the economy. ECLOF Kenya has a rural presence, with 42 branches in 33 countries and serving over 60,000 clients. The MFI has a portfolio in excess of KES 1 billion (~ USD 10 million), of which KES 231 million (23%) is invested in agriculture. It is currently a Microfinance Company Limited by Guarantee but is in the process of becoming a shareholder-owned institution, with the objective of becoming a deposit-taking institution in the coming years[12].

87. ECLOF is deepening its presence in lending to agriculture and other players in the rural sector and is scaling up dairy lending across all viable business clusters, with farmer groups and cooperatives being the product nerve centres. The MFI plans to roll this out through a robust capacity development programme that targets staff, partner cooperative leaders and farmers across its network of branches. ECLOF Kenya has worked with numerous partners, in line with its mission to enable clients to realise their dreams and experience the abundance of life through the provision of financial and related non-financial services. These partners include DFID, the USAID-supported Kenya Crops and Dairy Market System (KCDMS), Kiva, Unilever, Water org, and ORB Energy, among others.

88. ECLOF's main loan products include monthly climate smart agriculture (a dairy loan started in 2015 that had lent KES 29 million to over 200 farmers by May 2018. Its loan pricing and structure is a 3-9 month farmer input loan at below market rate,

[12] Service Delivery Model Assessment -Public Report September 2018

enabled by a repayable grant from DFID to eliminate the loan cost of the capital. No collateral is required, only six weeks of savings and proof of six months of milk deposits to an aggregator. The loans are disbursed either directly to the farmer through their loan group – via a combination of various delivery channels, for example the mobile money transfer platform M-Pesa, and subject to assessment of intended dairy farming expenditures – or through the partner aggregator for feed or purchase of a new cow.

89. The loan is repaid monthly through the partner aggregator who tracks the deposited milk and pays the farmers after subtracting the loan repayment. There are additional services offered by the MFI, including access to livestock insurance, guaranteed off-take by the partner aggregator and access to climate smart and good agricultural practices training, including farm diversification training, demo farms, and financial literacy training access to veterinary services provided by the partner aggregator.

90. The MFI is also moving into green financing by providing loan products for improving access to clean water, proper sanitary facilities, such as construction of environmental-friendly toilets, including ventilation improved pit (VIP) latrines, roof water catchment, water tanks, water purifiers, tanks and collectors, or shallow wells, in addition to financing energy-efficient cooking stoves (jikos) and solar panels for charging phones and operating a lamp, a small radio or a solar-powered TV. Children now have light to do their homework, solar and heating. Towards this end, since 2011, ECLOF Kenya has disbursed loans worth over KES 260 million to over 6,200 clients (the average loan size is around KES 40,000). As a result, some clients enjoy greater comfort and hygiene; others collect water for farm or family use while yet others start a small business as water vendors.

iv) Juhudi Kilimo MFI

91. Juhudi Kilimo is the second largest non-deposit-tracking (credit-only) MFI in the country in terms of branch and county coverage. The MFI has a variety of loan products that enable farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, goats, sheep, donkeys, rabbits, bee keeping, animal feeds and fish farming among others. They include:

- Animal farming loans that enable farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, dairy goat farming, sheep, rabbits, bee keeping and fish farming among others;
- Farm equipment loans targeting farmers to help them acquire quality farm equipment, such as generators, water tanks, water pumps, milking cans, biogas digesters, motor cycles, posho mills, chaff cutters, green houses, irrigation equipment, milk freezers, milking machines, ATM milk dispensers, ploughing tools/equipment, and animal housing structures.
- Working capital loans targeting farmers and micro entrepreneurs to enable them to expand their businesses and invest in agri-processors, agrovets, animal trade,

cereals, groceries, milk vending, transport services and veterinary services, among others. .

In addition to deepening financial literacy for the sound management of loans, Juhudi provides business management, technical and financial literacy training to rural smallholder farmers and micro entrepreneurs. This loan product enables farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, goats, sheep, donkeys, rabbits, bee keeping, animal feeds and fish farming, among others.

92. Juhudi Kilimo's main focus is predominantly smallholder farmers. It uses the group lending methodology and the results have been impressive. Its loan book has grown from KES 497 million in 2013 to KES 1.77 billion in 2020 (an increase of 256%), while its customer base has increased from 12,375 to 45,672 (an increase of 269%) in the same period. Its strategic thrust in the next few years is on growth, sustainability and impact. The MFI assesses or qualifies clients to receive progressively higher loans as farmers repay their loans, reassessing a farmer's debt capacity at each level. Starting with loans of, for example, KES 100,000, farmers can apply for up to double the earlier amount at each successful full repayment, with a cap at KES 100,000. Every loan goes through a new credit appraisal, and approval is not automatic. It also offers top-up loans for energy devices (such as solar lanterns and improved cooking stoves), education and emergencies to its most loyal clients.

93. Juhudi Kilimo is already working in the green finance space by providing loans for investment in green/clean energy investment and to customers seeking financing for eco-friendly products, such as solar water pumps, solar home systems, modern cooking stoves, solar TVs, and biogas systems that use energy generated from natural resources that are renewable (naturally replenished). The areas of focus include solar panels, solar pumps, sola lanterns, solar installations, solar batteries, solar TVs, and improved cooking stoves.

v) SUMAC MFB

94. Sumac Microfinance Bank was established in 2002 by a group of 14 investors who initially formed an investment group to help chart out a better future for themselves. In 2004, the institution opened its doors to the public as Sumac Credit Limited with a mission to empower businesspeople who couldn't match the stringent loan requirements by commercial banks. In 2012, we were duly licensed as a Microfinance Bank by the Central Bank of Kenya to take deposits. We have since been referred to as Sumac Microfinance Bank Ltd. The P+MFB has continued to expand and has 4 branches (Ngara, Nairobi, Githunguri, Nakuru and Thika) and plans are underway for the opening of more branches across the country with targeted.

95. Since 2012 the MFB's customer base has grown and the bank is currently managing over KES 500 million worth of customer deposits, loan book standing at

KES 900 million and operating a balance sheet of KES 1.3 billion. Sumac has been able to team up with local and international partners for funding and currently the bank has a customer base of 10,000.

96. These include Regmifa Fund Triple Jump, both from the Netherlands. For strategic reasons, the firm has just partnered with Badoer Investments Limited from Dubai, UAE which has taken over 15.6% shareholding. As part of its expansion the bank is also targeting diaspora banking and partnering with local commercial banks and other organisation, which include Micro Enterprises Support Programme Trust (MESPT), Development Bank and Credit Bank.

97. The MFB's expansion will continue in coming years in a strategic approach to seek to meet the needs of its clients countrywide. The bank has a strong presence in asset financing products, especially on motor vehicles and agricultural equipment that as well as business loans with clients paying a 30 per cent deposit on all vehicle purchases while Sumac Microfinance Bank finances the remainder 70 per cent. In addition, the MFB has ventured in agricultural financing with a facility for dairy farmers, that include financing farmers to acquire dairy cattle in a facility that is also insured, to cushion them against any animal losses and which has also opened credit lines to women and the youth in the rural areas where they own no other form of security except livestock, allowing them once they have cleared paying for a facility to take up new ones.

98. It is worth noting that Sumac has been able to team up with other local and international partners for funding as well. These include Regional MSME Investment Fund for Sub-Saharan Africa (Regmifa) and Triple Jump, both from the Netherlands. Local Sumac partners include Micro Enterprises Support Programme Trust (MESPT), Development Bank and Credit Bank. The MFI has already received KES 150 million from the Regmifa, KES 45 million from the Development Bank of Kenya, KES 30 million from the Micro Enterprises Support Programme Trust (MESPT) USD2 million (KES 200 million) from US-based Social Investment Managers & Advisors (SIMA) LLC.

99. The MFB is also moving into green finance and is providing finance for acquisition of green energy assets. The bank is providing Kawi loan (a clean energy product) which is meant to help individuals access clean (solar) energy equipment and installation, including cooking stove, biogas, solar panel, and installation of generators for the same. The loan product targets dairy farmers for biogas and light industries and micro client for cooking stoves.

100. To further deepen the green finance business the MFB entered a long-term agreement with the Kenya Biogas Programme (KBP)[13] to sell biogas to both existing

[13] The Kenya Biogas Program (KBP), a constituent of the Africa Biogas Partnership Program (ABPP) aims to achieve the development of a commercially viable domestic biodigester sector in Kenya by 2019.

and potential clients throughout the country. Plans are at an advanced stage to roll-out the project, in which farmers will access funding from Sumac MFB to acquire the biogas facilities, and then pay the loan monthly over a convenient period of time.

101. Digitization provides an opportunity for microfinance providers to leverage their license, customer base and outreach to rural areas and low-income clients and digital solutions help financial institutions deepen customer engagement and product usage, and in turn promote and increase financial inclusion. Sumac MFB has leveraged on innovation through its M-banking platform, which is integrated into a vibrant core banking system in order to provide financial services more efficiently and effectively.

102. Businesses across the world and country in almost all sector s of the economy have gone through particularly rough stretch in the last fifteen months since March 2020. The diminished earning capacity of their clients threatens to undermine the strong repayment culture on which microfinance depends. Sumac has not been an exception but the management and board of the bank is still hopeful of a bright future. The bank responded to the pandemic in two ways, that is, by providing repayment deferrals and restructuring loans, which is being review on a need-basis and case-by case basis.

5. SUMMARY OF MFIs' POTENTIAL TO PARTICIPATE IN RK-FINFA

Strategies, challenges and opportunities

103. The MFIs that have been profiled play a key role in supporting smallholder farmers in their agribusiness operations through offering credit facilities and training to boost their economic value and ensure food security both at the community and household levels. The MFIs provide a wide range of agribusiness products for both savings and credit facilities and have unique business models for groups, individual and SME clients and have the capacity to absorb additional funds that can be pushed towards farmers, especially smallholder farmers.

104. Although for most of MFIs farmers are not their main clientele, they are increasingly becoming keen to lend to the stakeholders operating in the sector. They have subsequently diversified their lending to agriculture and have a broader menu of products for the farming community. They provide a variety of delivery channels and operations and their products and services are open to organised groups, organisations and individuals.

105. Some of the MFIs, such as Kenya Women Microfinance Bank, Faulu and SMEP participated in the PROFIT Programme implemented by the National Treasury and IFAD. They received funds in 2012 for on-lending to farmers and other players in the agricultural sector, which luckily was accompanied by a technical assistance package that helped in building the capacity of the staff to develop an agricultural strategy, policy and operational manual.

106. Some of the MFIs are moving into green financing by providing loan products for improving access to clean water, proper sanitary facilities, such as construction of environmental-friendly toilets, ventilation improved pit (VIP) latrines, roof water catchment, water tanks, water purifiers, tanks and collectors, or shallow wells, in addition to financing energy cooking stoves (jikos), and solar panels for charging phones and operating lamps, radios or solar-powered TVs.

Assessment of the technological/operational capacity of the MFIs and quality of the MIS system

107. The MFIs would be willing to participate in RK FINFA in order to increase agriculture lending and to finance the expansion of its agribusiness product offering. Some of the challenges they have faced in lending to farmers, agriSMES and MSMEs in the rural and agriculture sectors include high cost of funds and delivering financial services, lack of adequate market linkages and non-predictability of the agricultural markets, and limited technology. They therefore they are required to invest in technology to deliver these services to rural populations, which can be quite expensive and a high credit risk due to production risk, market risk, weather risk etc.

108. In the age of data-driven services, some MFIs, such as Musoni have demonstrated that providers of digital inclusive financial services can embrace technology, and reach out to ever-greater numbers of low-income people, while mitigating risks and implementing client protection principles. Client protection policies are a useful tool in the efforts to improve the lives of low-income people and their communities, enabling microfinance institutions to maximise their social impact.

109. A summary of the profiles of 5 MFIs active in agricultural finance is shown in the table below.

Table 3: Summary of the profiles of 5 MFIs active in agricultural finance

MFIs	KWFT	FAULU	SUMAC	ECLOF	Juhudi Kilimo
Financial soundness[1]	✓	✓	✓	✓	✓
Have an agriculture strategy? [2]	✓	✓	X	X	X
Staff has agri-capacity[2]	✓	✓	✓	✓	✓
Rural outreach (branches)	✓	✓	✓	✓	✓
Already offering agricultural loans	✓	✓	✓	✓	✓
Targeted agricultural finance product development	✓	✓	X	✓	✓
Need technical services /opportunities to participate in the RK FINFA programme	✓	✓	✓	✓	✓
Quality of MIS[3]	✓	✓	X	X	X

1 Although the financial statements are fine, it is important to point that it is not feasible to deeply interrogate financial statement in this kind of exercise. They are taken as-is. The RK FINFA would need to undertake due diligence of financial institutions to participate in the RK FINFA programme during implementation

2 KWFT and Faulu participated in the PROFIT programme

3 The quality of the MIS will have to be vouched for after due diligence if the MFIs were to participate in the RK FINFA programme

6. PROFILES OF 5 Deposit-Taking Saccos

110. This section profiles a sample of 5 farmer-based DT Saccos that are regulated by SASRA. The section does not review the performance information of the individual Saccos. However, it was assumed that since these Saccos had renewed their licences for 2019, they were in good financial standing. SASRA regularly reviews the performance of Saccos based on the following parameters: (i) capital adequacy (core capital, core capital/total assets, core capital/total deposits and institutional capital/total assets; (ii) asset quality (non-performing loans (NPLs) to gross loans, NPLs net of provisions to core capital, and earning assets to total assets; (iii) earning rating – return on assets (ROA), interest margin to gross income , cost income ratio , non-interest expenses to gross income, operating expense to total assets ratio; and (iv) liquidity ratio (liquid assets/savings deposits and short-term liabilities, liquid assets/total deposits, external borrowings/total assets, liquid assets/total assets and total loans/total deposits.

i) UNAITAS DT-Sacco

111. Unaitas initially registered on 14 May 1993 as a cooperative society. The Sacco started its branch operations in Muranga and has expanded to have a network of 28

branches spread across 13 counties, serving over 340,000 members. In 2007, it was rebranded to Muramati Sacco. . It would later change its common bond, diversify, and recruit more farmers, small and medium-size entrepreneurs and salaried employees. In line with its growth and expansion strategy, Muramati rebranded to Unaitas in 2012, adopting a strong, bold brand and recruiting from a more diverse geographical area and population.

Unaitas' performance overview

112. Unaitas has continued to register steady and sustainable growth in all key performance parameters. Currently the Sacco has an asset base of KES 14 billion and it serves about 300,000 members. The society's deposits increased by 7.08%, from KES 7.48 billion in 2018 to KES 8.05 billion in 2019. The Sacco has continued to invest in technology and to update its systems in order to serve its members more effectively and efficiently. It has diversified and currently has members drawn from diverse sectors, such as agriculture – farmers growing tea, cereals coffee and dairy – which accounts for 27% of the KES 11 billion loan book to members. It also has personal lending, which targets salaried Kenyans (accounting for 30% of the Sacco's loan book). However, SMEs form the bulk of the Sacco's portfolio and it has 10,000 chamas (organised groups) that have accounts with the Sacco.

Table 4: Key Financial and Statistical Information (KES millions)

As at 31 December	2020	2019	2018	2017	2016
Membership	340,034	316,437	277,145	275,708	261,001
Number of branches	27	26	26	21	20
Number of employees	310	347	298	292	339
Interest income	2,199	1,908	1,313	1,249	1,324
Interest expense	(303)	(197)	(147)	(152)	(193)
Other income	336	333	622	369	364
Total operating income	2,211	2,044	1,789	1,465	1,496
Operating expenditure	1,555	1,437	1,330	1,113	1,216
Profit Before Tax	656	607	458	352	280

Table 5: Growth and performance parameters (KES millions)

Capitalisation	FY2016	FY2017	FY2018	FY2019	FY2020
Total assets	10,727	11,844	12,735	14,196	16,566
Total deposits	6,455	7,013	7,480	8,049	8,920
Gross loans	7,426	7,657	9,288	11,372	14,130
Allowance for loan loss	409	522	756	773	1,012
Net loans	7,454	7,135	8,532	10,599	13,118
Core capital	4,063	4,572	4,851	5,345	5,801

113. Saccos have beaten the pandemic after SASRA cut capital adequacy by 50% and liquidity requirements by 50%. The Central Bank of Kenya (CBK) also took a similar measure by lowering the cash reserve ratio, injecting more liquidity into the banking system.

Table 6: Key performance indicators (KES Millions)

Stability Indicator	**Prescribed Minimum**	**2020**	**2019**	**2018**	**2017**	**2016**
Capital adequacy						
Core capital/total assets	10%	38%	35%	38%	39%	38%
Core capital/total deposits	8%	65%	66%	65%	65%	63%
Institutional capital /total assets	8%	10%	10%	9%	7%	8%
Liquidity ratio						
Liquid assets/total deposits	15%	16%	22%	20%	34%	33%
Operating efficiency /loan quality ratios						
Total expenses/total revenue		74%	74%	80%	47%	55%

114. The summary of information based on audited accounts show the following for the Saccos:

i) The profit before tax grew by 8% to reach KES 656 million in 2020 from KES 607 million in 2019.

ii) Total assets grew by 16% to reach KES 16.5 billion in 2020 from KES 14.1 billion in 2019.
iii) Total deposits grew by 11% to reach KES 8.9 billion in 2020 from KES 8 billion in 2019.
iv) Total gross loans grew by 24% to reach KES 14.1 billion in 2020 from KES 11.3 billion in 2019, indicating a positive demand for lending from the members of Unaitas. Allowance for loan loss grew by 31% to reach KES 1 billion in 2020 from KES 773 million in 2019 as a result of increasing provisions based on the volatile and declining economic environment occasioned by the COVID-19 pandemic.
v) Core capital grew by 9% to reach KES 5.8 billion in 2020 from KES 5.3 billion in 2019, indicating stability of Unaitas.
vi) Unaitas has maintained aggregate level of compliance with the prescribed capital adequacy ratios requirements of the regulator SASRA.
vii) The Sacco has continued to grow its institutional capital over the years through retention of surpluses from profit gains made over the years to build a solid capital base for the organisation.

ii) Tower DT-Taking Sacco

115. Tower Sacco was registered in 1976, and licensed by SASRA as a DT Sacco in 2011 after fulfilling all the conditions set by the regulatory body. This has enabled the Sacco to achieve some positive milestones, including an increased capital base due to retention and raising of more share capital. It has become self-reliant due to retention of surplus and mobilisation of capital, leading to reduced external borrowing and has become more efficient in service delivery and the granting of loans. And it has divested from non-core activities.

116. With support from a partnership between the Government of Kenya and the Alliance for a Green Revolution in Africa (AGRA) and Programme for Rural Outreach of Financial Innovations and Technologies Programme (PROFIT), the staff were introduced to the programme. S staff from the credit and marketing departments were trained and exposed to insights on how agriculture value chains work, the different players in the value chains and their roles at different levels of production. After the training, the Sacco started developing farmer-oriented and friendly financial products. Since then it has been able to disburse over 2,000 short-term loans to small-scale farmers in groups in Nyandarua County, amounting to KES 200 million. The Sacco has a loan book of about KES 80 million being serviced by small-scale farmer groups and value chain players like small agrovet shops, while premium customers, including SME members and dairy marketing cooperatives are servicing a combined loan book of about KES 3 billion. The Sacco also advanced credit to some of the farmers’ cooperatives in the county. It is therefore no coincidence that, of the large-tier DT-Saccos, Tower Sacco was the fastest growing for the second year running, with a growth rate of about 31% in 2019, compared with a growth rate of

28.1% recorded in 2018. This growth rate led Tower Sacco to move from the 11th position in 2018 to 13th position in 2019.[14] This report does not want to be speculative but it is likely that among the factors that led to the fast growth of the Sacco was the diversification into investing and the partnership with the PROFIT programme. This cements the argument that investing in well-targeted Saccos, capacity building and injecting liquidity can significantly improve the outreach of Saccos in working on supporting farmers and rural stakeholders. The Sacco has spread to other agricultural counties such as Laikipia, Nakuru, Nyeri and Narok and is now targeting farmers in Nairobi and Kiambu counties.

Table 7: Tower Sacco's performance in the last three years

Parameter/Year	**2018**	**2019**	**2020**	**Growth (%)[1]**
Capital adequacy	14.6%	14.3%	14.6%	2.10
Asset quality	83.3%	82.4%	86%	4.37
Earning rate/Return on assets (ROA)	2%	2%	3%	50.00
Liquidity ratio	64.73%	62.2%	49.4%	-20.58
Loan book (KES billions)	7.095	9.190	11.804	28.44
Asset base (KES billions)	8.524	11.157	13.729	23.05
Membership	83,333	105,580	147,614	39.81

[1] Growth between FY2019 and FY2020 (%)

Effects of COVID-19 on Tower Sacco's Performance

117. Covid-19 has had negative impact in the following key areas indicated below, thus greatly affecting its normal operations:

Savings/Deposits

118. Due to movement restrictions, the agriculture value chain experienced a limitation in free flow of both goods and services. This led to strained cash flows, strained earnings, especially in Nyandarua County whose main economic activity is agriculture, and as a result, strained savings and deposits. The culture of savings has been compromised.

Loan repayments

119. With strained cash flows, the ability to meet loan obligations is not there. This means that most loans will either miss some monthly payments or monthly instalments or will be paid partially. This has led to a slight regression of Tower Sacco's portfolio at risk to the loan book held by farmers and SMEs in the agriculture value chain.

Revenues

[14] Sacco Supervision Report 2019

120. With strained earnings and cash flows, the Sacco's businesses experienced diminishing returns, thus they were unable to service their loans in a timely manner. This increased its provisioning and as a result, revenues were also negatively affected.

Liquidity

121. This is directly affected by all the three factors above. If savings, share deposits, loan repayments and revenues are negatively affected, it is automatic that liquidity will also be affected negatively. This is reflected by the ratio declining by 20.58% (see Table 6 above)

iii) AMICA DT-Sacco

122. This Sacco was started by small-scale farmers as the Murang'a Farmers' District (currently Murang'a County) Cooperative Union (MFDCU) to offer union banking services (UBS) to their members in 1966.

123. The Union Banking Section (UBS) transformed into a separate legal entity from Murang'a Farmers District Co-operative Union (MFDCU) and was registered as Murata Farmers Sacco Society Limited in 1970. In 1997, the Union Banking Section (UBS) transformed into a separate legal entity from Murang'a Farmers District Cooperative Union (MFDCU) and was registered as Murata Farmers Sacco Society Limited.

124. Then in 2006, the Sacco changed its name from Murata Farmers Sacco to Murata Sacco Ltd. The Sacco was licensed by Sacco Societies Regulatory Authority (SASRA) as a deposit-taking Sacco in 2011. The Sacco has now been rebranded as Amica Sacco. The Sacco has a solid history of more than 50 years serving small-scale farmers.

Amica's performance overview

125. Amica Sacco has strong foundations and is among the top fifteen medium-tiered DT-Saccos by total assets (KES 3.82 billion) and total deposits (KES 3.02 billion) in 2019. The Sacco has continued to invest in technology and to update its systems in order to serve its members more effectively and efficiently. The ratios of the Sacco have shown a positive trend overs the last three years, as shown in Table 7 below.

Table 8: Amica's Performance

CAPITAL COMPONENTS (KES)	Dec 2020	Dec 2019	Dec 2018
Surplus after tax	166,550,036.00	110,551,659.00	172,738,699.00
Core capital	12,020,246.00	(199,326,777.21)	(149,334,694.00)
Institutional capital	(521,923,458)	(662,168,350)	(566,163,046)
ON - BALANCE SHEET ASSETS	**Dec-20**	**Dec-19**	**Dec-18**
Deposits and balances at other institutions	417,893,876.00	349,562,621.00	128,493,436.00
Gross loans and advances	3,524,264,582.00	2,786,214,844.00	2,446,130,100.00
Total assets	4,549,314,918.00	3,819,682,653.06	3,062,950,949.66
Total liquid assets	486,843,502.00	436,747,403.00	356,742,891.00
Loan loss provision	450,974,406.00	436,442,796.00	481,643,926.00
Members' deposits	3,505,505,874.00	3,024,616,387.00	2,621,230,612.00
Ratios	**Dec-20**	**Dec-19**	**Dec-18**
Core capital to assets ratio	0.3%	-5%	-5%
Institutional capital to assets ratio	-11.47%	-17.34%	-18.48%
Core capital to deposits ratio	0.34%	-6.59%	-5.70%
Liquidity ratio	13.89%	14.44%	13.61%
Earning rate	3.66%	2.89%	5.64%
Asset quality	11.34%	13.54%	16.45%

iv) K-Unity Sacco

126. K-Unity (formerly Kiambu Unity Finance Co-operative Union Ltd) is a cooperative union established in 1974 as a result of the amalgamation of the then Limuru Marketing Co-operative Union and Kiambu Dairy Marketing Union to act as a means of facilitating savings and credit facilities for dairy and pyrethrum societies within Kiambu County. In 2019 it had an asset base of over KES 2.9 billion. Its total deposits grew by 10.5% from KES 2.72 billion in 2018 to KES 3.04 billion in 2019. It has more than 100,000 members in five counties, namely Kiambu, Nairobi, Nakuru, Narok, and Nyandarua.

v)Bingwa DT Sacco

127. Bingwa Sacco Society Ltd (Formerly Kirinyaga Tea Growers Sacco Ltd) was registered in 1984, being the first of its kind in the country and in Africa. Initially, it

started its operations with back office savings activity (BOSA) services. It introduced BOSA services in 1993 to meet the increasing demand by the growing membership. The Sacco was first licensed by SASRA to undertake deposit-taking in 2011, and was among the first Saccos to be registered to do so in the country. The Sacco's gross loans, total assets and totals deposits were KES 3,826 million, KES 5,821 million and KES 2,937 million in 2019, respectively. The total membership increased from 187,488 in 2018 to 201,558 in 2020. The Sacco provides both financial and non-financial services to its members and it has 19 branches in Kirinyaga and Nairobi counties.

7. SUMMARY OF SACCOS' POTENTIAL TO PARTICIPATE IN RK FINFA

An assessment of the profiled DT-taking Saccos starts at the point of annual licencing. The fact that they were licensed for FY2019 meant that they met the Sacco legal and regulatory threshold for annual licencing that SASRA looks at in order to approve the annual licence for Saccos. Some of the conditions include a minimum requirement on capital adequacy that requires Sacco societies to comply with and maintain at all times the minimum capital requirements as required by the law and regulations. For Saccos to acquire the annual licence, they also need to maintain a certain level of liquidity, and comply with proper asset and liability management. All the Saccos that were profiled in this report met this licensing threshold. In addition, all the five Saccos had solid total assets and total deposits and were classified as belonging in the top and medium tiers in both of these two parameters, as shown in Table 8 below.

Table 9: Saccos' financial information

No.	**Name of the DT-Sacco**	**Total Assets (KES billions)**		**Growth (%) 2019**	**Total deposits (KES billions)**		**Growth (%) 2019**
		2018	**2019**		**2018**	**2019**	
1	UNAITAS	12.88	14.23	10.48	7.48	8.05	7.62
2	TOWER	8.52	11.16	30.99	6.55	8.63	31.83
3	BINGWA	5.15	5.82	13.01	2.78	2.94	5.76
4	AMICA	3.06	3.82	24.84	2.62	3.02	15.27
5	K-UNITY	3.64	4.09	12.36	2.72	3.04	11.76

Strategies, challenges and opportunities

128. The five Saccos were originally registered as farmers' Saccos and continued to hold a large portion of their memberships as well their plan portfolio directed at small-scale farmers and the rural sector in general. In that respect, they satisfy the RK FINFA requirements for support. As can be seen from their assets and deposits, they are strong organisations. But their performance is directly proportional to the

performance of the agriculture sector, which has not done particular well in the last few years. They have also been hit by the adverse effects of the COVID-19 pandemic. The Saccos are also in a tough business in terms of competition from other financial service providers, changing demands from customers, technological advancement, and political and legal changes. These changes have posed opportunities as well as threats to the Saccos. In order to address these obstacles, the Saccos have diversified into growth areas such as SMEs, since the opening up of the common bond, including having salaried members.

129. Most of the Saccos profiled here have diversified into lending for climate change interventions, such as water harvesting structures and facilities, solar energy, biogas etc., whose uptake is increasing as farmers become aware of the challenges and as the price of electricity continues to increase. Two of them were able to interact with the PROFIT programme: the Saccos benefited from capacity from the programme while AMICA Sacco received KES 100 million from the AFC for on-lending to farmers.

Assessment of the technological/operational capacity of the Saccos and quality of MIS systems

130. The consultant did not assess this aspect but took the Saccos' word that they have a robust systems that include core banking systems. However, most of the Saccos were amenable to undertaking and assessment of the technological/operational capacity of the Sacco and the quality of the MIS system if they were to take part in the RK FINFA facility. These five Saccos have been leveraging on the core banking system to improve their performance and would be willing to have due diligence carried out. They would be willing to have technical services provided when needed, including in assessing the pipeline of potential clients.

8. EFFECTS/IMPACT OF THE COVID-19 PANDEMIC ON THE CREDIT MARKET IN KENYA

131. Kenya's Gross Domestic Product (GDP) is expanded by 5.4% per cent in 2019 compared to a growth of 6.3% in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors. The agriculture, forestry and fishing sectors accounted for a sizeable proportion of the slowdown, from 6.0% growth in 2018 to 3.6% in 2019. The manufacturing sector grew by 3.2% in 2019 compared to 4.3% in 2018. Despite most sectors recording decelerated growths, the economy was supported by accelerated growth in financial and insurance services (6.6%) and real estate activities (5.3%)[15].

[15] Kenya National Bureau of Statistics, 2020

132. Up till 2019 one of the challenges that FIs faced was the capping of interest rates by the CBK. A few months after the lifting of the interest rate capping, COVID-19 struck. In order to reduce the spread of the pandemic, the government put in a raft of measures, including curfews, restricting inter-country travel, lockdowns, and closing of schools, colleges and universities, among other measures. Businesses rely both on the steady demand for their goods and services, and the provision of goods, services, financing, and information to their business. In 2002, the COVID-19 crisis disrupted both of these critical needs.

133. Across value chains, the biggest impact of COVID-19 on agriculture small and medium enterprises (agri-SMEs) is changes in demand, followed by disruptions in the flow of commodities, information, and capital. A few businesses and farmers benefitted from increased demand for staple foods, but, for many, the supply chain disruptions had a negative effect. Lack of access to financing meant that agri-SMEs and smallholder farmers were particularly exposed to changes in demand or operations. The adverse impacts of COVID-19 on these businesses were felt all along the supply chain, from producers to consumers, with significant long-term consequences for rural livelihoods and food security. The volatility in demand for products has also disrupted the ability of smallholders to maintain their businesses across all types of value chains. The only beneficiaries of the COVID-19 pandemic were the producers of staple foods, since consumers were expected to remain steady (demand for staple foods is inelastic, although this could also have been affected by reduced incomes, given that lot of people lost their jobs). Changes in demand were noticeable in local markets. Reduced demand was driven by both decreased incomes and social distancing regulations. Demand for staple foods, such as maize and rice, has increased; however, markets struggled to fulfil the demand in the face of government regulations limiting transport. The decrease in income also created a shift in demand from higher-value horticulture toward more basic vegetables and staple crops.

134. In business markets (hotels, restaurants, etc.) tourism has been halted across most countries, and social distancing or curfew measures have forced many businesses to close. This has forced agri-SMEs to think differently about how they can serve local customers. In addition, the flow of agricultural inputs and availability of labour has been disrupted as government regulations around social distancing are enforced. This includes inputs such as seeds and fertilizer for commercial farms, and raw materials for processors. These disruptions forced businesses to proactively manage their inventory, stocking up when they can. This is difficult, however, without access to credit lines, especially as the price of some inputs, notably fertilizer, goes up. It is particularly difficult for cereal growers in Kenya, for whom the arrival of their inputs is very time-sensitive due to the planting season. For aggregators and processors that source from smallholder farmers, there is a particular constraint to their access to raw materials if the farmers are keeping their harvest for their own consumption rather than selling it to traders or processors.

135. The COVID-19 pandemic has created even more financial pressure on farmers and agri-SMEs in Kenya. The volatile markets and ongoing restrictions on movement are putting additional pressure on farmers and agri-SMEs' finances. They could face financial challenges and experience difficulties servicing their loans and scaling down their operations. FIs are also facing challenges in serving customers as their own credit lines are constrained. FIs' risk appetites to serve the farming community have traditionally been constrained, as they have argued that the sector is risky to advance credit to and costly to serve. This has greatly been aggravated by the pandemic as FIs needed to reach rural clients while adhering to safety measures set by the Ministry of Health. Ultimately, the flow of finances to the agricultural sector is now further constrained as the sector becomes more risky and FIs further retreat from it.

136. The COVID-19 shock posed significant downside risks to banks' performance. Although most of the banking sector's reports were not yet in when this assessment was being conducted (April 2021), a reading of reports from a sample of the first-tier banks do not present a very rosy picture of the state of affairs. For example, Cooperative Bank reported a 24% decline in profit-before tax of KES 14.3 billion for the financial year 2020 compared to KES 20.7 billion recorded in 2019, and a profit after tax (net profit) of KES 10.9 billion in 2020 compared to KES 14.3 billion in 2019. At the same time loan loss provisioning increased by 235% from KES 2.54 billion in 2019, while the financial institution also had to restructure KES 49 billion in loans in order to support customers impacted by the pandemic. Kenya Commercial Bank (KCB), on the other hand, reported a net profit of KES 19.6 billion in 2020, compared to KES 25.2 billion that the listed lender posted in 2019, which is a 22% decline.

137. COVID-19 hit the sector when it was recovering from the effects of the interest rate cap implemented by the Central Bank of Kenya in 2016. The pandemic shock reversed the potential benefits for banks from the repeal of the lending rate cap in November 2019, including being able to price risk appropriately. The cap was introduced by Parliament in 2016 to curb high lending rates but had unintended consequences, with banks pulling back loans to certain riskier sectors, such as SMEs, thus restricting private sector credit growth. The repeal was expected to enhance access to credit among the private sector.

138. Meanwhile, borrowers in the country will soon need to regularise repayment of their loans after the CBK announced the expiry of emergency measures on the restructuring of loans on 23rd March, 2021. These emergency measures included the provision of regulatory flexibility to banks by CBK. The interventions involved various restructuring options, including an extension of the repayment period, a moratorium on principal or interest and waivers on interest or fees. According to the regulator, these measures have provided space to borrowers to ride through the pandemic, mitigate job losses and pivot their business models to the new normal. In total, loans amounting to KES 1.7 trillion were restructured by end of February 2021, accounting for 57% of the banking sector's gross loans. The outstanding restructured loans as at end February amounted to KES 569.3 billion, or 19% of the total gross loans and

more than 95% of the outstanding restructured loans, which are being repaid in accordance with the restructured terms.

139. While the CBK had taken measures to reduce the adverse effects of the COVID-19 pandemic on commercial banks, and the measures could have contributed on stabilising the Saccos sub-sector, there were no specific interventions put in place to shield the Saccos. SASRA had put in place and established a daily liquidity monitoring report to closely follow the performance of this indicator.

140. A summary of the profiles of 5 DT-saccos in agricultural finance is shown in the table below

Table 10: Summary of the profiles of 5 DT Saccos active in agricultural finance

MFIs	**UNAITAS**	**TOWER**	**AMICA**	**K-Unity**	**Bingwa**
Financial soundness[1]	✓	✓	✓	✓	✓
Have an agriculture strategy? [2]	X	X	X	X	X
Staff has agri-capacity[2]	X	X	X	X	X
Rural outreach (branches)	✓	✓	✓	✓	✓
Already offering agricultural loans	✓	✓	✓	✓	✓
Targeted agricultural finance product development	X	X	X	X	X
Need technical services /opportunities to participate in the RK FINFA programme	✓	✓	✓	✓	✓
Quality of MIS[3]	✓	✓	X	X	X

4 Although the financial statements are sound and the saccos were licensed by SASRA or FY 2019, it is important to point that it is not feasible to deeply interrogate such financial statements in this kind of assignment. They are taken as-is. The RK FINFA would need to undertake due diligence of financial institutions to participate in the RK FINFA programme during implementation

5 TOWER and AMICA DT-saccos participating in PROFIT programme with benefiting from capacity building and AMICA receiving KES 100 million from AFC

6 The quality of the MIS will have to be vouched for after due diligence if the MFIs were to participate in the RK FINFA programme

9. JUSTIFICATION/RATIONALE FOR PARTICIPATION IN THE PROJECT

141. Farmers and other stakeholders in the agricultural/rural sector continue to be constrained by inadequate access to financial services. The primary target group should be made up of rural poor households with a member(s) who has actual or potential capacity to generate income through economic activities. The target group will include, in particular, smallholder farmers engaged in crop or livestock production

with some marketable surplus, those who receive occasional remittances from other household members or relatives, retrenched mine workers who have resettled in rural areas, landless households with sporadic wage employment opportunities, households headed by women, and unemployed young people.

142. On the supply side, there are many types of FIs in the agriculture/rural space. However, it is doubtful that they are fully satisfying the demand for financial services. Additionally, from the profiling undertaken, they seem to be concentrated in a small geographical space (limited geographical diversification) and the product offerings seem to be quite limited. There is a need to have FIs who have the appetite to increase not just their product offerings, models and channels of delivery but also their geographical space.

143. The FIs to be selected to receive the investment funds from RK FINFA must therefore have an inclusive targeting approach in order to ensure the targeted groups are reached with financial services. The FIs should also be willing to develop and implement products and services that will be accessible and responsive to the needs of targeted groups. The FIs to be selected should improve access to financial services, which means increasing outreach (increasing number of targeted beneficiaries), and improving the depth of outreach, portfolio quality, and financial sustainability that will be essential if FIs are to reach significant numbers of the targeted groups and realise long-term social returns. This means, among other things, charging interest rates that cover costs in order to ensure profitability and growth and efficiency. Improving the efficiency of rural finance operations translates into higher-quality, lower-cost services for the targeted groups. FIs can achieve greater efficiencies, and thus reduce costs, by investing in quality management information systems, the development of relevant products, technological improvements and well-trained staff. RK FINFA is designed to put in place interventions that address some of the challenges and constraints that have been identified in this report.

144. Saccos and MFIs have started showing interest in agricultural lending. During the implementation of the recently concluded PROFIT programme, there were a few MFIs and Saccos that participated and accessed resources from the AFC. However, these FIs have inadequate finances to enable them to serve farmers and other agricultural value chain (AVC) players adequately. If they could partner with more and better capitalised FIs, such as commercial banks, through participation in a project such as RK FINFA, they can deepen their financial outreach in the rural areas, where penetration is still low. To ensure that the injection of credit meets its objectives in RK FINFA, it should be accompanied by capacity building by way of technical support services in aspects such as (i) technical assistance at both the pre- and post-investment stage for agri-SMEs to strengthen their business and financial management capacity to qualify for and manage financing; (ii) capacity building for FIs to adapt their product offering, enhance their staff expertise, and improve their systems and processes so they are better suited for the agri-SME market; (iii) innovative investments to promote technological and other business model improvements that will drive down the costs of agri-SME lending; (iv) design and

implementation of demand for and supply of agricultural finance to help the MFIs understand different smallholder segments and their needs; (v) product design and piloting to reduce the costs and risks of new market entry and innovation; (vii) systems improvements to adapt MIS/core banking systems and use technology solutions, such as automation of data capture and analysis, to accommodate tailored credit assessment, portfolio monitoring requirements, and loan repayment schedules; (viii) design of staff incentive plans to promote agricultural lending; (ix) introduction of product-costing practices to inform product and programme design and to help to make the business case for new market entrants; and (xi) design and piloting of new delivery channels to reduce the costs and risks of lending.

145. In conclusion, there are great opportunities for Saccos and MFIs/MFBs to fill the gap in financial service provision that exits in the rural and agricultural sectors in Kenya.

Attachment 1 to Appendix 1 of PIM

Landscape document for Participation of Rural SACCOs in the Rural Kenya Financial Inclusion Facility

MAY 2021

Introduction

146. Kenya's financial sector is the third largest in Sub-Saharan Africa and is a significant contributor to economic growth and job creation. This sector is driven by increased adoption of technology, emergence of alternative channels of distribution, increased financial inclusion levels and a stable regulatory environment. As of January 2021, the Kenyan financial sector comprised a wide variety of players including: (i) 38 commercial banks; (ii) one mortgage finance company; (iii) a large number of Microfinance Institutions (MFI), notably 14 deposit-taking Microfinance Banks (MFB); (iv) a vibrant Savings and Credit Cooperatives (SACCO) sector, also comprising deposit-taking SACCOs, nine representative offices of foreign banks, offices of international financial institutions, (v) insurance companies, (vi) 68 foreign exchange bureaus; (vii) 19 money remittance providers and (viii) three credit reference bureaus[16]. These various types of financial institutions serve different segments of the Kenyan agriculture sector, comprising in particular: (a) small-scale lending to smallholders and microentrepeneurs by small rural financial institutions (SACCOs and MFBs), and (b) medium-size lending to SME-agribusinesses, by commercial banks.

147. The banking industry was resilient in 2020, as reflected by high capital and liquidity buffers of 18.5 percent and 53.1 percent against the statutory minimum requirements of 14.5 percent and 20 percent, respectively. However, profit declined by 30.0 percent in the year to June 2020 and assets quality deteriorated, with the ratio of non-performing loans to gross loans increasing from 12 percent in December 2019 to 13.1 percent in June 2020. Similarly, the SACCOs industry was resilient in 2019, with enhanced capital and liquidity buffers. However, the industry's high interest expenses to income ratio and disruptions in members' livelihoods elevated funding and credit risks, respectively.

148. Kenya's SACCO sector is among the biggest in Africa with 5.7 per cent of total assets-to-GDP ratio. Growth of this sector has leveraged on rapid adoption of technology and innovations in the provision of financial services and products coupled with the opening up of the common membership bond. In addition, an enabling regulatory environment has helped SACCOs to grow and be accessed by 28.4 per cent of the adult population as of December 2019, the highest level in Africa[17]. Total assets for all deposits taking SACCOS grew by 11.8 per cent, to KSh555.9 billion in 2019, and the gross loans, mainly funded from members' contributions and deposits, grew by 11.3 per cent in 2019[18]. Overall, SACCOs have played a critical role in improving the financial inclusion of the Kenyan rural population. However these

16 The Kenya Financial Stability Report (October 2020, Issue No.11)
https://www.centralbank.go.ke/uploads/financial_sector_stability/1560356005_Financial%20Stability%20Report.pdf.;

17 Ibid.

18 Ibid

institutions’ further growth is limited by their challenges to access affordable and long-term wholesale financing.

149. The Sacco sub-sector is currently well regulated by the Saccos Societies Regulatory Authority, which is mandated to undertake licensing, regulation and superstition of Saccos. Under its watch the sector has grown and stabilized and has become one of the most important pillars in the offering financial services in the country. Other policy instruments that guide the sub-sector in the Co-operative Societies Act and its regulation and the Co-operative Development Policy

150. Saccos are classified as either deposit-taking (DT) or non-deposit-taking (non-DT) Saccos. The DT-Saccos are those that take deposits, and thus offer withdraw-able savings accounts services similar to those offered by banks. They also offer front office service activities (FOSAs) here members can walk into their banking halls as they withdraw or deposit money into their accounts. These saccos are licensed and regulated by SASRA and besides the basic saving and credit products they also provide basic banking services that is, they demand deposits, provide payment services and some even provide ATMs. It is because of this intermediation, and the systemic risks they pose in the market, that deposit-taking Saccos are regulated prudentially by the Sacco Societies Regulatory Authority (SASRA).

151. On the other hand, the non-DT-Sacco comprises those saccos that mobilize savings from their members; these savings are strictly utilized as collateral for credit facilities advanced to such members. The non-deposit taking Saccos do not offer front office services as members do not hold accounts where they deposit or withdraw money. Non-deposit taking Saccos accept long-term deposits, which are used as collateral that members use to borrow loans against. These deposits cannot be withdrawn unless a member leaves the Sacco altogether.

It is important to note that the main difference between depository institutions and non-depository institutions lies in their demand for deposits from members. DT saccos require you to open a savings account and deposit money that you can easily withdraw similar to what commercial banks do. But non-DT saccos, require you to buy shares into the Sacco and become a member and save your money – but you cannot withdraw it unless you are leaving the Sacco. The only way to access funds here is through loans and dividends.

152. The Sacco Sub-Sector Demographic Report has given new insights hitherto unknown or sometimes more generally assumed by the country. For instance, one third of the DT-Sacco membership are below 35 years and 19.35 per cent of the adult population were members of DT-saccos (conversely 80.65 per cent of the adult population do not belong to a DT-Sacco), meaning there is a huge untapped potential from which these saccos can recruit new membership.

153. Kenya is estimated to have between 4,000 and 5,000 SACCOs in Kenya, with over 3 million members that shows the key role the rural SACCOs could play,

particularly in the high and medium-potential areas of rural Kenya. Saccos have grown rapidly in the past decades and depot-taking ones are now better regulated under SASRA. Their participation in deepen financial inclusion in the areas can be enhanced in the new IFAD rural finance program. A few saccos accessed financial resources from AFC under the now concluded PROFIT programme.

i) **Deposit-Taking Saccos**

154. The Kenya financial services sector is becoming increasingly competitive and technologically sophisticated. It has multiple providers and stakeholders - commercial banks, MFIs, Saccos and digital (mobile money transfer and lenders). There were 172 licensed DT-saccos operating in the country in 2019. This cluster of saccos have shown resilient and stability in provision of financial services in the midst of stiff completion from other types of financial service providers (FSPs). In spite of competition DT-Saccos continued to show great depth of resilience and stability as evidenced by their double-digit growth rate in all the key parameters or metrics of performance in 2019. Their total assets increased by 12.4% to KES 556.7 billion, while the total deposits increased by 11.27% to KES 380.4 billion[19].

155. In addition, these saccos have continued to be stable and sound when assessed against capital adequacy (core capital), with their core capital having grown from KES 54.94 in 2016 to KES 79.20 in 2019. In terms of liquidity, only nine DT-saccos had a liquidity ratio of less than the prescribed 15% with the remaining 163 DT-saccos recording liquidity rations of well above that 15% threshold. This is an improvement from 25 DT-saccos, which were unable to meet the liquidity threshold in 2018.

156. The performance of DT-saccos continued to grow resulting in an increase in the gross loans by 12.1 percent to KES 419.6 billion, while net loans and credit advances constituted 71.9 percent of the total assets in 2019 and which was largely financed by the non-withdrawable deposit portfolio of the saccos. On the other hand, deposits grew by 11.3% to KES 380.4 billion in 2019. Indeed, the DT-saccos total assets share of the national nominal GDP was 5.6 percent in 2018, while it was projected that this share of the national nominal GDP will increase to about 5.72% in 2019, further underscoring the importance of DT-saccos in the economy[20].

157. In order to compare performance, risk assessment and compliance of DT-saccos they are categorised into three groups: (i) the large-tiered banks with assets in excess of KES 5 billion; (ii) medium-tiered saccos whose total assets are between KES 1 billion and KES 5 billion and (iii) DT-saccos whose total assets are less than the KES 1 billion threshold. In 2019, 31 DT-saccos in the large-tiered saccos had total assets worth KES 390.29 billion (70.11%) of the total portfolio for DT-taking Saccos, while the medium-tiered saccos had 58 saccos controlling KES 135.70 billion worth of assets and had a market share of 24.38%. The small-tiered saccos category had

[19] SACCO Supervision Annual Report, 2019
[20] Kenya Financial Sector Stability Report, 2018

83 saccos, which controlled only KES 30.72 billion worth of assets and a market of a meagre 5.52%.

158. It is instructive to note that the market share of total assets of the large-tiered saccos increased by 6.55% from 65.8% in 2018 to 70.11% in 2019, while the medium-tiered category had its market share reduced by about 11% from 27.37% to 24.38% and the small-tiered category suffered the largest decline in market share of 19.2% from 6.83% to 5.52%.

159. SASRA has categorises in to three categories in terms of total deposits: as in the case of total assets, with the large-tier comprising of saccos with more than KES 5billion, medium-tier are those saccos with total deposits of between KES 1 and KES 5 billion and small-tier is composed of saccos with less than KES 1 billion of total deposits. As was the case with total assets, the large–tier saccos increased in number from 13 to 20 and controlled KES 224.75 billion worth of deposits and a market share of 59.08%, while medium-tier saccos had their numbers reduce from 54 to 53, controlled asserts worth KES 123.73 billion and a market share of 32.52%. The third tier saccos had their numbers reduce from 107 to 99, controlled KES 31.96 billion and a market share of a paltry 8.4%.

160. As was the case with total assets the largest DT-saccos saw their market share increase by 8.1% from 54.64% in 2018 to 59.08% in 2019, while the middle (2nd) tiered saccos saw an 8.0% decrease in their market from 35.35% to 32.52%. The third tier saccos saw an erosion of their market share of 16.1% from 10.01% to 8.4% during the same period.

161. In Kenya saccos are founded/formed along certain "common bond" characteristics such as occupation, profession, industry, geographical area of operations, among others. They can be grouped into five main categories based on this classification or clustering: (i); Government employee-based saccos; (ii) teacher-based saccos; (iii) farmer-based (coffee, tea, dairy, sugar, cotton, horticulture, etc.); (iv) private sector-employee based saccos and (v) community-based (social association or membership) saccos. Many DT-saccos have, in the last decade or so opened their common bond to membership of a more diverse group of people. However, the bulk of the DT-Sacco membership is still drawn from the original common bond members. This categorisation has been retained by the regulator for the purposes of analysis and understanding the general and individual performance of saccos in each cluster (even when the composition of membership may have changed significantly). This is important for purposes of assessing the performance of an individual Saco and the general performance of a cluster of saccos. This classification/clustering also assists in the analysis and identification of risks associated with a particular cluster of DT-SACCOs, as well as the development of mitigation strategies to such risks.

162. The government is interested in having a properly regulated Sacco sub-sector in the country. SASRA continues to do a good job in licensing, supervising and

regulating the DT-saccos. In order to further efforts to fight corruption, reduce financial malpractices and improve the governance of the Sacco sub-sector the government has proposed several measures. This is in tandem with the government objective of having a better legal and regulatory regime for this section of the financial services sector. There are several measures that have been proposed towards this end. One of the measures is the development of new rules/regulations to bring board non-DT Sacco under SASRA supervision. The Regulations specified a number of BOSA businesses, as the non-deposit taking SACCOs as defined by Section 3(2) of the SACCO Societies Act. These are the Non-Deposit Taking business (BOSA) in which the total non-withdrawable deposits from members is equal to or KES 100 million, Non-Deposit Taking business (BOSA) in which the SACCO Society mobilises membership and subscription to its share capital through digital or other electronic payment platforms and Non-Deposit-Taking business (BOSA) in which the Sacco mobilises membership and subscription to its share capital from persons who are ordinarily resident outside the country. The potential saccos have been given six months to comply (up to 30th June 2021), from which time SASRA will start applying the regulations. Already there are about 45 non-DT-saccos have shown interest by supplying pre-licensing data and information. However none has formally made the application. According to SASRA, there are approximately 300 non-DT-saccos that could potentially be brought under SASRA's purview, according to their unaudited returns.

163. The second new measures proposed is the planned Sacco Central Liquidity Facility (CLF). The objective will facilitate cooperation amongst SACCOs through pooling of liquidity and connected services to enhance the financial soundness and competitiveness of the SACCOs as deposit taking institutions. The guidelines and polices on bringing Saccos together have already been developed. It is worth noting that over fifty (50) SACCOs have already shown interest in participating in the facility and are working with the Regulator on this initiative and have already developed By-laws to govern the CLF and shared services business amongst themselves. A Cabinet Memorandum has already been prepared for ministerial consideration and processing. The Office of the Attorney General, in collaboration with the Ministry of Agriculture, Livestock, Fisheries and Co-operatives (State Department of Co-operatives) will then prepare a draft legal framework to be tabled in Parliament to amend the current Co-operative Societies and the Sacco Societies Act.

ii) **Non-deposit-taking saccos**

164. The overriding challenge to the co-operative movement is to reverse the recent decline in performance, particularly for commodity-based cooperatives. Following the liberalization of the co-operative sub-sector in the early 1990's, and withdrawal of direct Government intervention, many societies found themselves unprepared to cope with the challenges of a liberalized market economy. Poor management systems, including deficiency in financial management skills, precipitated chronic losses and heavy indebtedness. Other factors include a weak capital base due to

societies' inability to mobilize adequate resources for investment and low members equity occasioned by lack of guaranteed returns and poor credit management.

165. In order to further, improve the prudence governance of all saccos the government has continued reforms in the Sacco sub-sector. In 2020 the Minister for Agriculture. Livestock, Fisheries and Co-operatives gazetted the Sacco Societies (Non-Deposit-Taking Business) Regulations, 2020. The regulations prescribe the prudential and market conduct measures to be complied with by all saccos undertaking specified non-deposit-taking business, popularly known as Back Office Service Activity (BOSA), which took effect on 1st January 2021. Specifically, they regulations specify that all non-DT-saccos in which the total non-withdrawable deposits from members is at least KES 100 million, non-DT-saccos who mobilize their membership and subscription through digital or other electronic payment platforms and non DT-saccos who mobilise membership and subscription from Kenyans living outside the country (popularly referred as Diaspora Saccos), will be regulated by SASRA. This class of non-DT Saccos must comply with these regulations within six months of the commencement of the regulations 2020, that is, on or before 30th June 2021. The regulation requires that the saccos put in place appropriate institutional measures and infrastructure, a management information system (MIS) for the purpose of performing and acting for all transactions and providing the minimum requirements by SASRA and appropriate risk management policies and internal controls systems and suitable organisation, governance and management structure.

iii) **Farmer-based DT– Saccos**

166. There are 49 farmer-based DT-SACCOs21 accounting for slightly more than 28 per cent of the current 172 DT-saccos that were licensed in 2019. While the farmer-based DT-saccos account for 47.8 per cent of total DT-taking saccos membership (about 2.25 million members), they only have a market share of 10.2% per cent of total assets and 9.9 per cent of total deposits in 2019. A critical point to note is that there are many employee-based Saccos that provide credit facilities to farmers and other rural enterprises. SASRA is interested in understanding the sectoral performance of Saccos and has commissioned work to this extent.

167. Farmer-based DT-saccos were founded along the agricultural activities of its would-be members, such as coffee, tea or sugarcane farming, or dairy production. The fact that Kenya is largely an agriculturally based economy explains why this category accounts for the majority of members in the DT-Sacco system (52%)22. Although these DT-saccos controlled only 13.8% and 13.0% of the DT-Sacco system's total assets and deposits respectively, it is possible that some members who belong to other categories of DT-saccos (government, teachers, private sector and community) also belong to farmer-based DT-saccos and vice-versa.

[21] See attached list at the Annex II
[22] SASRA Demographic Survey 2019

168. Using that classification, teacher-based saccos continue to be the best performing using total assets and total deposits as a parameter. Their market share in total deposits and total assets increased by 2.84% from 34.84% in 2018 to 35.82% in 2019 and 2.11% from 35.93% in 2018 to 36.69% in 2019 respectively. For government -employee DT-saccos, a marginal decrease of 0.78% was recorded from a market share of 38.37% in 2018 to 38.07% in 2019, while the total deposits saw a marginal decline in market share of 0.31% from 37.67% in 2018 to 37.55% in 2019. On the other hand, the market share of farmer-based saccos declined by 2.18% from 10.11% in 2018 to 9.89% in 2019. On its part, the market share of total assets for the same category of Saccos declined by 2% from 10.39% in 2018 to 10.19% in 2019.

169. The market share of total deposits for the private-sector employee Saccos saw a decline 0f 4.11% from 10.21% in in 2018 to 9.79% in 2019, while the MS of total assets saw a 4.41% decrease from 9.51% in 2018 to 9.09% in 2019. Lastly, the market share of community-based Saccos decreased by a marginal 0.78% and their total assets also a small decline of 0.31% from 7.65% tin 20918 to 6.48& in 2019.

170. The performance of a particular category of Saccos dependent on the performance of the sector, industry, profession, or occupation from which the members are drawn. The picture that emerges from the above analysis is that the best-performing saccos in terms of assets and deposits are teacher-based saccos, followed closely by the government-employee based ones. The best performing categories of saccos are those that draw their membership from public teachers and government employees, whose pay, wages and allowances have risen in the last few years. The pay, wages and allowances are not so intricately tied to the performance of the sector from which the Sacco members are drawn, or industry or even the economy as a whole, as would be the case saccos who draw their members from farmers, business and community, whose performance is directly affected by the performance of the particular sector specifically of the performance of the economy generally.

171. The case for the farmer-based saccos is quite challenging given that, according to the Sacco Demographic Survey, 2019 conducted by SASRA, 47.81% of the total membership of DT-saccos are from farmer-based saccos, teacher-based and government employee-based saccos had 16.32% and 16.62 respectively, while the membership of private- sector employee-based and community-based Sacco was 9.86% and 9.38% of the membership of DT-saccos respectively.

172. For farmer-based saccos matters were made worse by the fact that the country experienced a mixed weather phenomenon, characterized by drought during the first half, followed by high rainfall in the second half of the year. This culminated in reduced production of selected crops and pasture for livestock. Consequently, the agriculture sector performance decelerated from 6.1 per cent in 2018 to 3.6 per cent in 2019. The value of marketed production at current prices contracted by 6.5 per cent from KES 498.3 billion in 2018 to KES 465.7 billion in 2019. This could buttress

the case for poor performance of the farmer-based case. The situation would certainly be made worse in 2020 by the Covid-19 pandemic shock.

173. The analysis of the performance of the DT-Saccos shows that the teacher-based DT-saccos registered marginal increase in their respective market share of the total assets and total deposits within the DT-saccos system. The teachers-based DT-saccos total asset market share increased from 35.93% in 2018 to 36.69% in 2019; while the total deposits share increased from 34.83% in 2018 to 35.82% in 2019. It is also important to observe that the increase in the market share for Teachers-based DT-saccos was registered despite the fact that the number of DT-saccos within the system remained the same at 43 institutions between 2018 and 2019. The market share of the total assets attributable to farmer-based Saccos declined by 1.92 per cent (that is, from 10.39% in 2018 to 10.19% in 2019) and declined by 2.18 per cent (that is, 10.11% in 2018 to 9.89%) (see Figure 1 below).

Table 1: Performance of Clusters of DT-Saccos based on original areas of membership (common-bonds)

Performance of Clusters of DT-Saccos based on original fields of membership (common-bonds)										
Cluster per original common bond of membership	No of DT-Saccos in the cluster		Total Asset (Billions)		% to Total Assets		Total Deposits (Billions)		% to Total Deposits	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Government employees -based DT-Saccos	35	36	186.57	209.07	37.67%	37.55%	131.18	144.83	38.37%	38.07%
Teacher based DT-Saccos	43	43	177.92	204.25	35.93%	36.69%	119.10	136.27	34.83%	35.82%
Farmer Based DT-Saccos	50	49	51.44	56.713	10.39%	10.19%	34.57	37.63	10.11%	9.89%
Private sector Based DT-Saccos	25	24	47.11	50.612	9.51%	9.09%	34.90	37.26	10.21%	9.79%
Community Based DT-Saccos	21	20	32.21	36.072	6.50%	6.48%	22.17	24.45	6.48%	6.43%
Totals	174	172	495.25	556.71	100.00%	100.00%	341.92	380.44	100.00%	100.00%

Source: Annual Sacco supervision report, 2019

174. Of importance to note is that, in spite of the positive developments in Kenya's overall financial sector landscape, *prudentially regulated financial institution investments into the agricultural sector remains low*. Less than 5 per cent of formal credit targets the sector[23] despite the large share of agriculture to GDP. According to the "Enterprise Survey" for Kenya[24], 27 per cent of small enterprises have accessed a bank loan, and the FinAccess survey report 2019[25] indicates that only about 3.2 per cent of Kenyan farmers secure loans through formal MFBs and commercial banks to finance their agriculture activities. This is despite the fact that about 29 per cent of rural households in general access bank/MFB broader range of services including

23 FAOSTAT, 2017

24 Enterprise Surveys, Kenya Profile, World Bank 2019

25 Central Bank of Kenya and Financial Sector Deepening Kenya, 2019. https://www.centralbank.go.ke/wp-content/uploads/2019/04/2019-FinAcces-Report.pdf

savings and transactions. Instead of formal lending, the household data shows that the primary sources of households' financing to agriculture investments comprise savings, sales of assets, support from family and friends, as well as the widespread informal financial services such as chamas (groups), moneylenders or shopkeeper credit26. Some of the challenges of increasing lending to the sector include: (i) low productivity; (ii) lack of comprehensive credit data to properly assess client credit worthiness often leading to rejection or excessive collateral requirements or higher rates; (iii) low capacity in agricultural lending, by financial institutions; (iv) high perceived and real risk of commercial bank lending to agriculture and rural sector; (v) high service costs due to relatively small deal sizes linked to smallholders; (vii) limited market attractiveness relative to perceived higher investment returns outside agriculture27; (vii) limited liquidity available to rural MFBs sand SACCOs, the last mile rural financial service providers who are interested and able to serve this market segment; and (viii) limited access to interbank lending wholesale resources by MFBs ans SACCOs28.

175. On the demand side, households reported key obstacles to accessing formal financial institution lending include: (i) insistence on land as collateral in many institutions; (ii) limited understanding of the application processes, (iii) existing debt at a financial institution, remaining to pay off, (iv) lacking guarantor or collateral, (v) limited or bad credit history and accounting records, (vi) insufficient demonstrated income or savings[29].

Rural saccos participation in a wholesale finance mechanism

176. Given that saccos are now well regulated under SASRA many of farmer/rural saccos have met the prudential guidelines and are fairly well managed. However, they are unable to meet the demands of their members for agricultural credit. Therefore, capital from other financial institutions can be of much help in improving their capital base so that they can on-lend to the farmers. The PROFIT programme has demonstrated that it is possible for banks to reach the small-scale farmers and micro and medium enterprises (MSMEs) using saccos in a well-structured model. The AFC made the lines of credit available to a few saccos for the purpose of on-lending to their members. In this innovative model AFC lent KES 552 million to selected Saccos and expected to leverage KES 2 billion. The Sacco default are was 1 per cent and profitability at maturity for AFC was 31 per cent. AFC recovered the costs of capital and overall corporate default rate was below 5 per cent down from 40 per cent and AFC achieved a turnaround. Current all the 49 farmer-based are interested in the pipeline credit amounting KES 4 billion.

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26 Ibid.

[27] Kenya Bankers Association Centre for Research on Financial Markets and Policy, 2018: Realization of Full Potential of the Agriculture Sector.

[28] Information based on interviews held during the Concept Note mission and needs to be verified during the full design.

[29] [29] Central Bank of Kenya and Financial Sector Deepening Kenya, 2019. https://www.centralbank.go.ke/wp-content/uploads/2019/04/2019-FinAcces-Report.pdf

177. One of the challenges that was faced during this innovative lending was the lack of a robust management information system at AFC. However, the program supported the upgrading of AFC's MIS so that it could be vibrant and robust enough to track, monitor and report on the application of the credit. So there is latent demand for this kind of green credit line and Saccos have demonstrated that they can be good channels through which this credit can be supplied. However, it is important to accompany this support with technical, support to the Sacco and the beneficiaries. Through the technical assistance it received, AFC made strides in several areas and results included: (i) development of wholesale financing delivery models geared towards saccos and MFIs for greater outreach to smallholder farmers. AFC previously experienced challenges in lending to smallholder farmers due to their small land holding, lack of tangible collateral and poor record keeping; (ii) with the PROFIT capacity interventions and loan from AFC, saccos increased their lending portfolio to the target value chains; (iii) saccos increased their risk appetite for lending to the PROFIT value chains by using unique AVCF products and Risk Management Framework and (iv) the loan from AFC has boosted the saccos' liquidity and enabled them to de-risk lending to smallholder farmers by using innovative products an offering technical services to the borrowers.

178. As far as green credit is concerned, it is important to appreciate that some of the saccos are already for items and activates such as provision of solar panels, construction of on-farm water harvesting structures, construction of on-farm biogas digesters for providing energy for cooking, heating and lighting, water harvest small-scale drip irrigation pipes and equipment.

179. In order for the Saccos to participate in this arrangement provision of Technical assistance on the supply side would be critical. The best-case scenario would be to not only match the facilities with technical assistance but also to ensure that the technical assistance precedes the provision of the wholesale green credit line to the Sacco. This will ensure that the sacco take up the credit line and implement it and that it has the capacity to track, document and report on them. This will minimize pilferage and diversion of funds to non-related activities.

Table 2: SWOT Analysis for the Saccos in agri-Finance in Kenya

Strengths	Weakness
• Loyalty in membership • Ready market for products and services • Improved governance • Experience, good reputation and branch • Resilient and hardworking membership	• Duplication of products • Poor recruitment and staff development • Poor research and development • Inadequate IT capacity • Low brand awareness • Small • Poor marketing and adaptability
Opportunities	Threats
• Unmet demand from members • Improved enabling environment (better policies, legal and regulatory framework) • Opening up the common bond and theorem diverse membership • Agency banking • Advancement and growth in technology (such as Mpesa platform)	• Competition from MFIs/Banks • Change of policies and legal framework • Technological changes in the financial and business sector • Ageing membership • High rated of member withdraws • Depended on the performance of the value chain • Lack of financial literacy

Profiles of DT-saccos

180. This section profiles a sample of 5 farmer-based DT saccos that are regulated by SASRA. The section does not review the performances information of the individual saccos. However, it was assumed that since these saccos had their renewed their licenses for 2019 then it is assumed that the saccos on good financial standing. SASRA regularly reviews the performance of saccos based on the following parameters: (i) capital adequacy (core capital, core capital/total assets, core capital/total deposits and institutional capital/total assets; (ii) asset quality (non-performing loans (NPLs) to gross loans; NPLs net of provisions to core capital; and earning assets to total assets; (iii) earning rating - return on assets (ROA), interest margin to gross income , cost income ratio , non-interest expenses to gross income, operating expense to total assets ratio; (iv) liquidity ratio (liquid assets/savings deposits & short term liabilities, liquid assets/total deposits, external borrowings/total assets, liquid assets/total assets and total loans/total deposits.

vi) Tower DT-Taking Sacco

181. Tower Sacco was registered in 1976 and licensed by SASRA as a DT-Sacco in 2011 after fulfilling all the conditions set by the regulatory body. This has enabled the Sacco to achieve some positive milestones including increased capital base due to retention and raising of more share capital, self-reliance has become self-reliant due to retention of surplus and mobilization of capital leading to reduced external borrowing and became more efficient in service delivery and granting of loans. And has divested from non-core activities.

182. With support from a partnership between the Government of Kenya and Alliance for Green Revolution in Africa (AGRA) and Programme for Rural Outreach of Financial Innovations and Technologies Program (PROFIT), the staff were introduced to the programme where their staff from the credit and marketing departments were trained and exposed to insights on how agriculture value chains work, the different players in the value chains and their roles at different levels of production. From the training the Sacco started developing farmer-oriented and friendly financial products. Since then they have been able to disburse over 2,000 short term loans to small-scale farmers in groups in Nyandarua County, amounting to KES 200 million. The Sacco has a loan book of about KES 80 million, being serviced by small-scale farmer groups and value chain players like the small agrovet shops, while premium customers including SME members and dairy marketing co-operatives are servicing a combined loan book of about KES 3 billion. The Sacco also advanced credit to some of the farmers' co-operatives in the county. It is therefore no coincidence that, of the large-tier DT-saccos Tower Sacco was the fastest growing for the second year running with a growth rate of about 31% in 2019, compared with a growth rate of 28.1% recorded in 2018. This growth rate led to Tower Sacco to move from the 11th position in 2018 to 13th position in 2019[30]. This report does not want to be speculative, but it is likely that among the factors that led to the fast growth of the Sacco was the diversification into investing and the partnership with the PROFIT programme. This cementing the arguments that investing in the well-targeted Saccos, capacity building and injecting liquid can significantly improve the outreach of Saccos working with farmers and other rural stakeholders. The Sacco has spread to other agricultural counties such as Laikipia, Nakuru, Nyeri and Narok and is now targeting farmers in Nairobi and Kiambu counties.

[30] Sacco Supervision Report 2019

Tower Sacco Performance

Table 3: Tower Sacco Performance for Last Three Years

Parameter/Year	**2018**	**2019**	**2020**	**Growth (%)**
Capital Adequacy	14.6%	14.3%	14.6%	2.10
Asset Quality	83.3%	82.4%	86%	4.37
Earning Rate/Return on Assets (ROA)	2%	2%	3%	50.00
Liquidity Ratio	64.73%	62.2%	49.4%	-20.58
Loan Book (KES billions)	7.095	9.190	11.804	28.44
Asset Base (KES billions)	8.524	11.157	13.729	23.05
Membership	83,333	105,580	147,614	39.81

183. Covid-19 has had negative impact on Tower Sacco performance in the following key areas indicated below thus greatly affecting our normal operations:

Savings/Deposits

184. Due to Government restrictions highlighted above, the agriculture value chain experienced a limitation in free flow of both goods and services. This led to strained cash flows, strained earnings, especially in Nyandarua County whose main economic activity is agriculture and as a result, strained savings and deposits. The culture of savings has been compromised.

Loan repayments

185. With strained cash flows, the ability to meet loan obligations is not there. This means that most loans will either miss some monthly payments or monthly instalments paid partially. This has led to a slight regression of our Portfolio at Risk to the loan book held by farmers and SMEs in the Agriculture Value Chain.

Revenues

186. With strained earnings and cash flows, the Sacco's businesses experience diminishing returns thus they were unable to service their loans timely. This increases our provisioning and as a result, revenues are also negatively affected.

Liquidity

187. This is directly affected by all the three factors above. If savings, share deposits, loan repayments and revenues are negatively affected, it is automatic that liquidity will also be affected negatively. This is reflected by the ratio declining by 20.58% (see Table above).

vii) UNAITAS DT-Sacco

188. Unaitas initially registered on 14 May 1993 as a cooperative society. The SACCO started its branch operations in Muranga and has expanded to have a network of 28 branches spread across 13 counties, serving over 340,000 members. In 2007, it was rebranded to Muramati Sacco in 2007. It would later change its common bond, diversify, and recruit more farmers, small and medium-size entrepreneurs and salaried employees. In line with its growth and expansion strategy, Muramati rebranded to Unaitas in 2012 adopting a strong, bold brand and recruit from a more geographical and population.

189. Unaitas has continued to register steady and sustainable growth in all key performance parameters. Currently the sacco has an asset base of KES 14 billion and serving about 300,000 members. In the last year, the society's deposit increased by 7.08% from KES 7.48 billion in 2018 to KES 8.05 billion in 2019. The sacco has continued to invest in technology and update its systems in order to serve its members more effectively and efficiently. The sacco has diversified h and currently has members drawn from diverse sectors such as agriculture in which we have those growing tea, cereals coffee and dairy, which accounts for 27 percent of the KES 11 billion loan book to members. It also has personal lending, which targets salaried Kenyans (accounting for 30 percent) of the sacco’s loan book. However, SMEs form the bulk of the saccos portfolio and have 10,000 chamas (organised groups) having accounts with the Sacco.

Growth and performance parameters (KES Millions)

Capitalization	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Total assets	10,727	11,844	12,735	14,196	16,566
Total deposits	6,455	7,013	7,480	8,049	8,920
Gross loans	7,426	7,657	9,288	11,372	14,130
Allowance for loan loss	409	522	756	773	1,012
Net loans	7,454	7,135	8,532	10,599	13,118
Core capital	4,063	4,572	4,851	5,345	5,801

190. The summary of information based on audited accounts show the following for this Sacco:

- The profit before tax grew by 8% to reach KES 656 million in 2020 from KES 607 million in 2019.
- Total assets grew by 16% to reach KES 16.5 billion in 2020 from KES 14.1 billion in 2019. Total deposits grew by 11% to reach KES 8.9 billion in 2020 from KES 8 billion in 2019.
- Total gross loans grew by 24% to reach KES 14.1 billion in 2020 from KES 11.3 billion in 2019 indicating a positive demand for lending from the members of Unaitas.
- Allowance for loan loss grew by 31% to reach KES 1 billion in 2020 from KES 773 million in 2019 as a result of increasing provisions based on the volatile and declining economic environment occasioned by the COVID 19 pandemic.
- Core capital grew by 9% to reach KES 5.8 billion in 2020 from KES 5.3 billion in 2019 indicating stability of Unaitas.
- Unaitas has maintained aggregate level of compliance with the prescribed capital adequacy ratios requirements by the regulator SASRA.
- The Sacco has continued to grow its institutional capital over the years through retention of surpluses from profit gains made over the years to build a solid capital base for the organization.

Strategies, challenges and opportunities

191. The Sacco continues to lend to farmers and currently agriculture forms 35% of the loan book, that about KES 3.5 billion and still sees opportunities in subsectors such as dairying which famers continue to show interest in. The business environment surrounding the Sacco been dynamic because of high competition, changing demands from customers, technological advancement, political and legal changes. These changes have posed opportunities as well as threats to Unaitas Sacco. It has been competing with established banks, other Saccos and MFIs for customers. Last year (and this is continuing challenge) it had to content with challenges posed by Covid-19 pandemic. In order to address these obstacles the Sacco has been diversifying into growth areas such as SMES since the opening up of the common bond. It currently has members who include salaried members who form about 30 percent of our loan book. However, SMEs form the bulk of the Sacco's portfolio and the intension is to see the growth of the SME portfolio. The Sacco also has about 10,000 chamas (self-help groups) that have accounts with it.

192. Through continuous research and innovativeness and is leveraging on the core banking system to ensure that has been rolled. The Sacco would be agreeable to have due diligence undertaken and assessment of its system including the MIS. It would be willing to have technical services provides when needed including in assessing the pipeline of potential clients.

193. The global pandemic has redefined how people interact with one another, how they conduct business and has had a negative impact to most household disposable income. However, it is an indication of Unaitas resilient and stability that this performance was achieved against a backdrop the global Covid-19 which severely impacted operating environment in 2020. This has led to reduced ability of members and savers to service their loans for most SMEs and famers. All the same during the year 2020 the Sacco received loan restructuring requests totalling to KES 2.1 billion.

viii) AMICA DT-Sacco

194. The Sacco stated by small-scale farmers as Murang'a Framers District (currently Murang'a County) Co-operative Union (MFDCU) to offer banking services to their members in 1966 and operated under Murang'a Farmers District Co-operative Union (MFDCU) as a Union Banking Section (UBS).

195. The Union Banking Section (UBS) transformed into a separate legal entity from Murang'a Farmers District Co-operative Union (MFDCU) and was registered as Murata Farmers Sacco Society Limited in 1970. In 1997, the Union Banking Section (UBS) transformed into a separate legal entity from Murang'a Farmers District Co-operative Union (MFDCU) and was registered as Murata Farmers Sacco Society Limited.

196. Then in 2006 Murata Sacco Ltd the common bond was opened and changed name from Murata Farmers Sacco to Murata Sacco Ltd. The Sacco was licensed by Sacco Societies Regulatory Authority (SASRA) as a deposit taking Sacco in 2011. The Sacco rebranded to Amica and logo and name from Murata Sacco Ltd to Amica Sacco. The Sacco has a solid history of more than 50 years serving small-scale farmers.

Sacco's performance overview

197. AMICA Sacco has strong foundations and is among the top fifteen medium-tiered DT-Sacco by total assets (KES 3.82 billion) and total deposits (KES 3.02 billion) in 2019. The Sacco has continued to invest in technology and update its systems in order to serve its members more effectively and efficiently. The ratios of the Sacco has shown a positive trend overs the last three years as shown in the table below.

Table 5: AMICA Performance

CAPITAL COMPONENTS (KES)	**Dec-20**	**Dec-19**	**Dec-18**
Surplus after tax	166,550,036.00	110,551,659.00	172,738,699.00
Core Capital	12,020,246.00	(199,326,777.21)	(149,334,694.00)
Institutional Capital	(521,923,458)	(662,168,350)	(566,163,046)
ON - BALANCE SHEET ASSETS	**Dec-20**	**Dec-19**	**Dec-18**
Deposits and Balances at Other Institutions	417,893,876.00	349,562,621.00	128,493,436.00
Gross Loans and Advances	3,524,264,582.00	2,786,214,844.00	2,446,130,100.00
Total Assets	4,549,314,918.00	3,819,682,653.06	3,062,950,949.66
Total Liquid Assets	486,843,502.00	436,747,403.00	356,742,891.00
Loan Loss Provision	450,974,406.00	436,442,796.00	481,643,926.00
Members Deposits	3,505,505,874.00	3,024,616,387.00	2,621,230,612.00
Ratios	**Dec-20**	**Dec-19**	**Dec-18**
Core capital to Assets Ratio	0.3%	-5%	-5%
Institutional Capital to Assets Ratio	-11.47%	-17.34%	-18.48%
Core capital to Deposits Ratio	0.34%	-6.59%	-5.70%
Liquidity Ratio	13.89%	14.44%	13.61%
Earning Rate	3.66%	2.89%	5.64%
Asset Quality	11.34%	13.54%	16.45%

Strategies, challenges and opportunities

198. The Sacco continues to have farmers as the main clientele, and it is one of the few Saccos that have been able to access credit (KES 100 million) from the AFC. Whereas the Sacco is diversifying its portfolio and clients from small-scale farmers they still remain the main clientele. How it is facing a lot of competition from other FIs (Saccos, MFIs/MFBs and commercial banks) especially in its main catchment areas or Muranga, Thika and to smaller extent Kiambu and Nairobi counties.

199. The Sacco is leveraging on the core banking system to improve its performance and would be willing to have due diligence undertaken and assessment of its system including the MIS. It would be willing to have technical services provides when needed including in assessing the pipeline of potential clients.

ix) K-Unity Sacco

200. K-Unity (formerly Kiambu Unity Finance Co-operative Union Ltd) is a co-operative union established in 1974 as a result of the amalgamation of the then Limuru Marketing Co-operative Union and Kiambu Dairy Marketing Union to act as a means of facilitating savings and credit facilities for dairy & pyrethrum societies within Kiambu County. In 2019 it had an asset base of over KES 2.9 billion. It total deposits grew by 10.5% from KES 2.72 billion (2018) to KES 3.04 billion in 2019 and has more than 100,000 members in five counties, namely Kiambu, Nairobi, Nakuru, Narok, and Nyandarua.

x)Bingwa DT Sacco.

201. Bingwa Sacco Society Ltd (Formerly Kirinyaga Tea Growers Sacco Ltd) was registered in 1984, being the first of its kind in the country and in Africa. Initially, it started its operations with back-office savings activity (BOSA) services. It introduced BOSA services in 1993 to meet the increasing demand by the growing membership. The Sacco was first licensed by SASRA to undertake deposit-taking in 2011 and was among the first Saccos to be registered to do so in the country. The Sacco's gross loans, total assets and totals deposits were KES 3,826 million, KES 5,821 million and KES 2,937 million in 2019, respectively. The total membership increased from 187,488 in 2018 to 201,558 in 2020. The Sacco provides both financial and non-financial services to its members and it has 19 branches in Kirinyaga and Nairobi counties.

Overall Impact of Covid -19 on Saccos

202. The global pandemic has redefined how people interact with one another, and how they conduct business, and this has had a negative impact on most households' disposable income. However, it is an indication of Saccos' resilience and stability that their performance was achieved against a backdrop of the global COVID-19, which severely impacted the operating environment in 2020. This has led to reduced ability of members and savers, including SMEs and farmers, to service their loans. Some of the Saccos had to undertake some loan restructuring requests in the last financial year.

203. Overall, non-performing loans (NPLs) in the sub-sector increased from 5.2% of the loan book to 9.1% in June 2020. In order to help the sub-sector ride out the pandemic, SASRA reduced capital adequacy by 50% and liquidity requirements by 50%. SASRA also allowed Saccos to restructure and renegotiate loans to ease pressure on their members facing difficulties in repaying loans due to the pandemic. On their part, Saccos restructured their loans in order to assist their members. Overall Saccos restructured loans worth KES 4.7 billion in the three months to June 2020, reflecting the difficulties members were facing in loan repayment.

204. Like most other institutions and organisations, Saccos experienced adverse effects brought about by the COVID-19 pandemic. After the first case was reported in the country in March 2020, the government declared a lockdown that included restricted movement in certain counties, and curfew was declared. The Saccos that suffered immediate effects were those that drew the majority of members from sectors such as aviation, tourism, horticulture, small businesses, and transport.

205. According to the Kenya Financial Sector Stability Report, October 2020, agriculture and micro and small enterprises (SMEs) were among those sectors that were most affected by the COVID-19 pandemic, making it difficult for members to service their loans and make deposits. The report warns that while the Sacco sub-sector has strong capital adequacy levels, and sufficient liquidity and earning capacity to withstand shocks and vulnerabilities, credit risks remain elevated.

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209. A summary of the profiles of 5 DT-saccos in agricultural finance is shown in the table below.

Table 6: Summary of the profiles of 5 DT Saccos active in agricultural finance

MFIs	**UNAITAS**	**TOWER**	**AMICA**	**K-Unity**	**Bingwa**

Financial soundness[1]	✓	✓	✓	✓	✓
Have an agriculture strategy? [2]	X	X	X	X	X
Staff has agri-capacity[2]	X	X	X	X	X
Rural outreach (branches)	✓	✓	✓	✓	✓
Already offering agricultural loans	✓	✓	✓	✓	✓
Targeted agricultural finance product development	X	X	X	X	X
Need technical services /opportunities to participate in the RK FINFA programme	✓	✓	✓	✓	✓
Quality of MIS[3]	✓	✓	X	X	X

7 Although the financial statements are sound and the saccos were licensed by SASRA or FY 2019, it is important to point that it is not feasible to deeply interrogate such financial statements in this kind of assignment. They are taken as-is. The RK FINFA would need to undertake due diligence of financial institutions to participate in the RK FINFA programme during implementation

8 TOWER and AMICA DT-saccos participating in PROFIT programme with benefiting from capacity building and AMICA receiving KES 100 million from AFC

9 The quality of the MIS will have to be vouched for after due diligence if the MFIs were to participate in the RK FINFA programme

Justification to participate in the R-FINFA

210. Saccos have proved to be resilient institutions in the agricultural and rural sector. This is especially true of farmer-based saccos whose main clients are small-scale farmers spread across the country. However, these saccos have inadequate finances to enable them serve farmers and other AVC players adequately. If they could partner with more and better capitalised financial institution through participating in a project such as RK FINFA they can reach deepen financial inclusion in the rural areas, where penetration is still low. To ensure that the injection of finance meets its objectives it should be accompanied by capacity building by way of technical support services in aspects such as (i) design and implementation of demand for and supply agricultural finance to help the MFIs understand different smallholder segments and their needs; (ii) product design and piloting to reduce the costs and risks of new market entry and innovation; (iii) systems improvements to adapt MIS/core banking systems and use technology solutions, such as automation of data

capture and analysis to accommodate tailored credit assessment, portfolio monitoring requirements, and loan repayment schedules; (iv) design of staff incentive plans to promote agricultural lending; (v) introduction of product-costing practices to inform product and program design and to help to make the business case for new market entrants; and (vi) design and piloting of new delivery channels to reduce the costs and risk of lending.

Attachment 2 to Appendix 1 of PIM

Landscape document for Participation of Microfinance Institutions in the Rural Kenya Financial Inclusion Facility

MAY 2021

Introduction

211. Kenya's financial sector is the third largest in sub-Saharan Africa and is a significant contributor to economic growth and job creation. This sector is driven by increased adoption of technology, emergence of alternative channels of distribution, increased financial inclusion levels and a stable regulatory environment. As of January 2021, the Kenyan financial sector comprised a wide variety of players including: (i) 38 commercial banks; (ii) one mortgage finance company; (iii) a large number of Microfinance Institutions (MFI), notably 14 deposit-taking Microfinance Banks (MFB); (iv) a vibrant Savings and Credit Cooperatives (MFI) sector, also comprising deposit-taking MFIs, nine representative offices of foreign banks, offices of international financial institutions, (v) insurance companies, (vi) 68 foreign exchange bureaus; (vii) 19 money remittance providers and (viii) three credit reference bureaus[31].

212. The banking industry was resilient in 2019, as reflected by high capital and liquidity buffers of 18.5 percent and 53.1 percent against the statutory minimum requirements of 14.5 percent and 20 percent, respectively. However, profit declined by 30.0 percent in the year to June 2020 and assets quality deteriorated, with the ratio of non-performing loans to gross loans increasing from 12 percent in December 2019 to 13.1 percent in June 2020. Similarly, the MFIs industry was resilient in 2019, with enhanced capital and liquidity buffers. However, the industry's high interest expenses to income ratio and disruptions in members' livelihoods elevated funding and credit risks, respectively.

213. Like the other sectors of the economy, the financial services sector has been negatively impacted by the effects of the Covod-19 pandemic. While the industry While in 2019 the banking industry registered a 9.6 per cent growth in assets and 9.1 per cent growth in deposits[32], in 2020, the COVID-19 pandemic eroded the banks' assets quality gains made in 2019, and the share of non-performing loans (NPLs) increased from 12 per cent in December 2019 to 13.1 per cent in June 2020. However the sector remains resilient with a liquidity ratio against total assets standing at 55 per cent as of December 2020, predominantly held in government bonds. This is well above the minimum regulatory requirement of 20 per cent. However, despite this liquidity, formal financial sector lending to rural and agriculture actors as well as wholesale lending to smaller rural finance institutions, which are directly funding these actors, remain low due to a high perceived risk and to limitations in the inter-bank lending market. The potential benefits of increasing the

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31 The Kenya Financial Stability Report (October 2020, Issue No.11) https://www.centralbank.go.ke/uploads/financial_sector_stability/1560356005_Financial%20Stability%20Report.pdf.
ibid

[32] The increase in deposits is attributed to more usage of digital finance including mobile money and agency banking.

share of formal financial sector productive investments in agriculture, and obstacles hindering such increase is further explained below.

214. The microfinance institutions (MFIs) have continued to exploit the opportunities and gaps created by commercial banks' unwillingness to adequately address the financial needs of smallholder farmers and agribusiness (agri-SMEs). They now provide a wide range of rural finance services including microcredit, small loans, savings and checking accounts, microinsurance and payment systems, hence reaching excluded, poor, and geographically isolated population segments.

215. There are two categories of MFIs in Kenya: the Deposit-taking MFIs also known as microfinance banks (MFBs) and the non-deposit taking MFIs, also called credit-only MFIs. The former are regulated by CBK (under the Microfinance Act, 2006 and the Microfinance Deposit Taking Institutions Regulations 2008) and hence tend to exercise more prudence in their affairs and therefore tend to be more stable. There are 14 MFBs (See List of Annex 1) which have contributed substantially to the quality and volume of rural financial services in Kenya.

216. The microfinance sector registered 8 percent growth in total assets from Ksh.70.8 billion in 2018 to KES 76.4 billion in 2019; net advances increased by 6 percent from KES 44.2 billion (2018) to KES 46.7 billion (2019), while the customer deposits increased by 7 percent from KES 41.0 billion in 2018 to KES.43.9 billion in 2019. This growth was attributed mainly to increased demand for credit by the various economic sectors and the usage of technology as a deposit and lending platform, with lending remaining the single largest activity undertaken by microfinance banks, as the net loan portfolio accounted for 61 percent of the microfinance bank's total assets. The growth in deposits was due to deposit mobilization through agency banking and mobile phone platforms, as well as expansion of branch network across the country, while customer deposits and borrowings were the main sources of funding, accounting for 58 percent and 20 percent of the microfinance banks' total funding[33].

217. In terms of market share, there were three (3) large MFBs with an aggregate market share (comprising assets, deposits, capital, number of active deposit and loan accounts) of 84.6 percent with KWFT (39.2%), Faulu MFB (36.9%) and Rafiki MFB (8.5%). Five medium microfinance banks with a combined market share of 13.9% with SMEP MFB (4.2%), Maisha MFB (3.4%), Caritas MFB (2.5%), Sumac (2.3%) U&I MFB (1.1%), while five small MFBs with an aggregate market share of 1.6 per cent. Maisha MFB made a seven-fold increase in market share from 0.5% in 2018 to 3.4% in 2019.

[33] Annual Banking Supervision Annual Report 2019

(ii) Non-Deposit-taking (credit-only) Microfinance Institutions

218. These MFIs play in deepening financial inclusion in the country and they are popular among the more resource poor Kenyans in the urban and rural setting. The credit-only MFIs cover a larger proportion of microfinance providers in Kenya. The category remains unregulated though the Microfinance Act 2006 mandates the minister for finance to issue regulations for this category and the Association of Microfinance Institutions of Kenya (AMFI) at some point in had drafted the regulations to promote a strong and viable credit only microfinance industry the country. in the meantime AMFIK has developed a Code of Conduct and Ethics which guides the operations of the institutions.

219. There are 11 credit-only MFIs that offer agricultural lending (See Table 1 below, summarizes the MFIs and their branch and county coverage in the country) in the country, out of which 10 (32.25%) have rural branches. These are Longitude, Neema Heep, Vision Fund Kenya, Yehu, Juhudi Kilimo, Jiweze, Hand-in-Hand, Bimas, ECLOF Kenya and SISDO. In total, the 11 MFIs have 163 fully-fledged branches in the country. Juhudi Kilimo has the second largest branch network with 39 branches in 28 counties. The MFIs provides asset-based loans and basic business and finance training to smallholder farmers and enterprises that allow them to purchase wealth generating financial solutions for their agribusiness. It was started by K-Rep Bank (now Sidian Bank) and has since been spun-out into a sustainable NBFI.

220. Out of the 11 credit-only MFIs which have a rural network, 8 have agricultural loan products and have 156 branches in the country. ECLOF Kenya has the largest coverage in the country, with network of 42 branches in 33 counties. It has many agricultural products in many value chains such as bananas, dairy, fruits, oil seeds, fruits, vegetables and soya beans. In terms of county coverage, the Kiambu has the largest number of branches of Credit-only MFIs, with rural branch network, with 12 branches, followed by Tharaka-Nithi with 11, Narok (10), Meru (9), Machakos (8) and Mombasa, Makueni, and Siaya with 7 each, with the rest having between one to six branches.

221. The distribution of the MFIs and their branch network is as shown in the table below.

Table 1: Credit-Only MFIs involved in agriculture lending/agri-finance in rural Kenya

No.	**Credit - Only Institution**	**Agri loans portfolio (KES millions)**	**Branch network**
1.	Juhudi Kilimo Co. Ltd	1,600.0	Nandi Hills, Eldoret East and West. Kapsowar, Bomet, Kericho, Nyamira, Sotik, Thika, Kerugoya, Matuu, Nkubu, Machakos Maua, Nyahururu, Nakuru, Molo, Limuru, Engineer, Kitale Main, Kitale Central, Bungoma, Kapcherop, Kakamega, Vihiga, Kisumu, Busia, Kitengela, Kitui, Wote, Eldama Ravin, Meru, Kitengela, Matuu, Chuka, Ruiru
2.	Hand in Hand Eastern Africa	600.0	Busia, Bomet, Eldama Ravine, Kibwezi, Embu, Nakuru East, Nakuru West, Njambini, Kawangware, Homa Bay, Kabarnet, Kiambu, Kitengela, Machakos, Voi, Nyahururu, Tala, Kitui, Nanyuki, Thika
3.	Eclof Kenya	363.6	Kiambu, Ruiru, Kirinyaga, Muranga, Nyandarwa, Nyeri, Kilifi, Kwale, Lamu, Taita Taveta, Embu, Makueni, Machakos, Mwala, Marsabit, Meru, Chuka, Homabay, Kisii, Migori, Nyamira, Siaya, Baringo, Bomet, Elgeyo Marakwet, Kajiado, Laikipia, Nandi, Narok, Samburu, Trans Nzoia, Turkana, Uasin Gishu, West Pokot, Kakamega, Bungoma, Busia, Vihiga
4.	Musoni Kenya Ltd	300.0	Nyanza, Homabay, Kakamega, Trans Nzoia, Bugoma, Kisii, Migori, Kericho, Eldoret, Kitale, Nyahururu, Nakuru, Nanyuki, Nyeri, Meru, Embu, Muranga, Wote, Kitui, Matuu, Machakos, Kitengela, Magadi, Rongai, Bisil, Naivasha
5.	Yehu Microfinance Trust	232.0	Kwale, Tiribe, Msambweni, Mwambalazi, Samburu, Kilifi, Mariakani, Kaloleni, Lamu, Makueni, Mikinduri, Meru, Taita Taveta, Voi
6.	Vision Fund Kenya Limited	87.7	Karbanet, West Pokot, Kapsabet, Kisumu(rural) Kitale, Mwala, Nyandarwa, Kilifi, Taveta, Migori, Meru, Njoro, Nyahururu, Molo, Kuresoi, Narok, Bomet, Nyeri and Tala
7.	Real People Ltd	57.0	Nairobi, Thika, Meru, Eldoret, Nakuru, Mombasa, Kisumu.

8.	Ushindi Bora	18.4	Eldama Ravin, Laikipia, Kinamba, Eldoret
9.	BIMAS	17.5	Embu, Nakuru, Marimanti, Maua, Nanyuki, Machakos, Nyahururu, Kitengela, Makueni, Tala, Kitui, Kibwezi, Mwingi, Masii, Kerugoya, Kiritiri, Nyeri, Mwea, Thika, Miwangu, Matuu, Meru, Chuka, Mikinduri, Emali, Laare, Kasarani, Loitoktok, Limuru, Utawala, Karatina, Voi, Zombe, Kiambu, Siakago, Nkubu, Runyenjes, Rongai
10.	Jiweze Ltd	10.0	Baringo, Ravin, Kabarnet, Uasin Gishu, Kericho, Londiani, Homabay, Nyandarua, Kajiado, Kericho, Laikipia, Nanyuki
11	Longitude Finance	5.3	Muranga and Kajiado

Source: Association of Microfinance Institutions, 2021

MFIs potential participation in a wholesale finance mechanism

222. Access to financial services by the agricultural sector, while not a means to an end, is critical to provide funds for investments in productivity, improved post-harvest practices, smooth household cash flow, enable better access to markets and promote better management of risks. It can also play an important role in climate adaptation and increase the resilience of agriculture to climate change, thus contributing to long term incomes and food security. Smallholder farmers are quite a heterogeneous group, differing in their resource base and choice of crops and livestock, links to markets, the relative importance of agricultural income, choice of financial service provides (relatives, informal groups, MFIs, MFIs, or even commercial banks) and other dimensions.

223. MFIs have good presence in rural areas, but do not have access to funds from the commercial banking sector or capital markets on a sustainable basis. In order for them to service farmers and agri-SMEs better they would need to forge linkages and partnerships with better capitalised financial institutions through which they could get wholesale funds for retailing/onward lending to the agricultural sector and rural areas. Some of the large microfinance institutions, such as the Kenya Women's Finance Trust (KWFT), Faulu, and SMEP, participated in the recently closed IFAD-supported Programme for Rural Finance Innovations and Technologies (PROFIT) and received funds that they on-lent to the farmers and other rural targets groups. In addition to receiving funds, they also benefited from capacity building from Technical Service Providers recruited on behalf of the Programme by the Alliance for Green Revolution in Africa (AGRA) who were collaborating with the programme. This capacity building assisted the participating MFIs to transform their operations, re-

orient their staff and have required liquidity in the short and medium-term to effectively expand their outreach.

224. In order to provide finance-access solutions regarding it is necessary to better understand the various profiles of smallholder families and the conditions and market context where they operate. While the majority of efforts towards improving access to finance by smallholder farmers has focused on agricultural value chains served primarily by banks or through value chain firms, this is a relatively narrow part of the market, representing only smallholder farmers in Kenya. There is a recognition of a missing middle in agri-finance in that there is limited understanding of what happens outside the commercial farmer and tight value chain segment (tea, coffee, larger scale ranching and dairying, commercial horticulture in Kenya) when it comes to financing models for farmers. MFIs with presence in rural areas could be part of solving this puzzle. Most of the MFIs do not lend to the agricultural sector for various reasons. These include seasonality of production since most farmers all need money at nearly the same time for sowing the crop, it places peak demand on MFIs which they are not able to mobilise; lumpy repayments since MFIs are generally accustomed to making loans with weekly or monthly repayment schedules. In agricultural loans, repayment is not possible till the crop is harvested and sold, the common method of collecting weekly or monthly repayment used by MFIs does not work for the sector. Another challenge is the high co-variant risk due to weather and pest or disease attacks occurring at the same time. A failure in rainfall (drought), unseasonal rains and flooding, hailstorms, high temperature spells, and likewise, pest attacks, affect crops and domestic animals adversely and affect all the farmers in a region. Since MFIs work in geographically compact areas, they can be severely affected by the high co-variant risk that crop loan borrowers face. Lastly, challenges of understanding the agricultural sector prevents MFIs getting onto agriculture lending. The country has therefore, witnessed a modest number of MFIs (both MFBs and credit-only) getting involved in making loans to a diverse group of agricultural stakeholders in many parts of the country.

225. However, even with this development there are MFIs, which have both staff and funds for the investment in this crucial sector. In addition, they are not unable to meet the demands for agricultural credit. Therefore, capital from other financial institutions can be of much help in improving their capital base so that they can on-lend to the farmers. The PROFIT programme demonstrated that it is possible to reach the small-scale farmers, agri-SMEs, and micro and medium enterprises (MSMEs) using MFBs/MFIs in a well-structured model. The Agricultural Finance Corporation (AFC) made lines of credit available to a few MFBs for the purpose of on-lending to their members. In this innovative model AFC lent KES 200 million to selected MFBs s and expected to leverage more resources from the MFBs. This model worked well and it is the intension of the Rural Kenya Financial Inclusion Facility (RK FINFA) to extend this model to more MFIs during its implementation.

226. There are, of course, many MFBs/MFIs that did not access the resources from AFC but continued lending their own funds to farmers. Even more important there

are many MFIs lending for climate-mitigating interventions such as green energy, soil conservation and water harvesting structures. There is therefore latent demand for this kind of green credit line and MFIs have demonstrated that they can be good channels through which this credit can be supplied. However, it is important to accompany this support with technical, support to the MFI and the beneficiaries. Through the technical assistance it received, AFC made strides in several areas and results included: (i) development of wholesale financing delivery models geared towards MFIS for greater outreach to smallholder farmers. AFC previously experienced challenges in lending to smallholder farmers due to their small land holding, lack of tangible collateral and poor record keeping; (ii) with the PROFIT capacity interventions and loan from AFC, MFIs increased their lending portfolio to the target value chains; (iii) MFIs increased their risk appetite for lending to the PROFIT value chains by using unique AVCF products and Risk Management Framework and (iv) the loan from AFC has boosted the MFIs' liquidity and enabled them to de-risk lending to smallholder farmers by using innovative products an offering technical services to the borrowers.

227. This model should be accompanied by capacity building by way of technical support underscore areas of technical support services in aspects such as: (i) design and implementation of demand for and supply agricultural finance to help the MFIs understand different smallholder segments and their needs; (ii) product design and piloting to reduce the costs and risks of new market entry and innovation; (iii) systems improvements to adapt MIS/core banking systems and use technology solutions, such as automation of data capture and analysis to accommodate tailored credit assessment, portfolio monitoring requirements, and loan repayment schedules; (iv) design of staff incentive plans to promote agricultural lending; (v) introduction of product-costing practices to inform product and program design and to help to make the business case for new market entrants; and (vi) design and piloting of new delivery channels to reduce the costs and risk of lending.

Delivery Channels

228. MFBs/MFBs use a combination of delivery channels in delivering their products and services, from the traditional use of the banking halls, field visits by staff to their members, use self-help groups and increasing in the recent past they are using banking agencies/agents and the M-Pesa platform both in collecting deposits and delivery loans. The latter two have helped MFIs operate more efficiently and increase their customer outreach, if managed well. A recent publication from the International Finance Corporation based on its work with nine MFIs in Africa, shows the cost of handling transactions via agents is about 25 percent lower than through branches.

229. However, managing an agent network can still be costly, so it is important to do it carefully and build slowly. The focus is therefore a balance between the branches and the agency and use of M-Pesa outlets. However, as can be seen from paras 9 most of the MFIs still operate hundreds of branches in the rural areas. For example

KEFT operates 241 branches in operates in 45 out of 47 counties and 80% of its operations are in the rural areas.

230. A SWOT (strengths, weaknesses, and threats) analysis of MFBs/MFIs in deepening in agricultural and rural sector is shown below.

Table 2: SWOT Analysis for the MFIs in Agri-Finance in Kenya

Strengths	**Weakness**
• Closer proximity to the clients • Enhancing rural economic productivity through easy finances • Bringing financial services to poor people and making it financial sustainable by the economies of scale-effect • Loan processing faster • Serves those who are marginalised (women, small traders, unemployed) • Encourages people to save	• Duplication of products by many MFIs • Some MFIs not properly (credit-only) regulated • Poor recruitment and staff development • Poor research and development • Inadequate IT capacity • Low brand awareness, poor marketing, and adaptability • High administrative costs • High repayment structure/high rate of interest • Loans being provided for unproductive or unfeasible projects
Opportunities	**Threats**
• Huge/growing demand and supply gap • Huge untapped market demand from members • Market openness and innovative client approaches • Improved enabling environment (better policies, legal and regulatory framework) for MFBs • Digital advancement and growth in technology (such as M-Pesa platform)	• Competition from MFIs and banks • Change of policies and legal framework • Cybersecurity issues and technological threats in the financial and business sector • Ageing membership • Lack of financial literacy

10. PROFILES OF MICROFINANCE INSTITUTIONS (MFIs)

231. The Central Bank of Kenya proposes to start vetting shareholders in microfinance banks who own at least a 10% stake, if proposed regulations seeking to boost governance are adopted. The regulator says in the draft Microfinance Bill, 2019 that people holding at least a 10% stake will be regarded as significant shareholders. This is the first time the regulator has defined a significant owner of

microfinance banks and upgraded the current law that only limits individual ownership at 25%.

vi) Kenya Women Microfinance Bank

Kenya Women Microfinance Bank (formerly known as Kenya Women Finance Trust or KWFT) is a tier 1 microfinance bank offering banking services that include both savings and credit products that cater for the needs of micro, small and medium-sized entrepreneurs. It has a branch network of 241 branches that operate in 45 of the 47 counties and 80% of its operations are in rural areas. The bank predominantly targets women, which is expected, since its history is founded primarily on the economic empowerment of women through access to finance. Although its main focus is not necessarily on agriculture, it has increased its interest in lending to agriculture and has a diversified menu of profits for the farming community. It is the leading and the largest MFI that has a great command in the market share, with over 800,000 clients across the country. Currently its products and services are open to organised groups, organisations, and individuals.

232. The total income of the bank rose from KES 5.9858 billion in 2018 to KES 5,982 billion in 2019, while its net loss dropped from KES 729.56 million to KES 401.59 million (a decrease of about 45%). Its total assets increased from KES 29.76 billion to KES 30.61 billion, while its total liabilities increased from KES 25.51 billion to KES 36.77 billion in the same period. Its liquidity ratio improved from 20.5% in 2018 to 24% in 2019, while its non-performing portfolio improved from KES 52.18 million in 2018 to KES 113.0 million in 2019.

233. The bank plays a key role in supporting the smallholder farmers in their agribusiness operations through offering credit facilities and training to boost their economic value and to ensure food security both at the household and the society level. The bank intends to deepen its agriculture lending and has a strategy to increase agricultural lending to 10% of its overall bank portfolio. In order to achieve this, the bank has developed an agribusiness strategy, and created an agribusiness department with a detailed programme on staff capacity building. It also has a management information system (MIS) in place to track deposits, credit facilities and liquidity; these reports can be customised as the need arises.

234. The bank would be willing to participate in any initiative, programme, or project aimed at increasing agriculture lending and to finance the expansion of its agribusiness product offering. Some of the challenges the bank has faced in lending to farmers, agri-SMESs and MSMEs in the rural and agriculture sectors include high cost of funds and the cost of delivering financial services, lack of adequate market linkages and non-predictability of the agricultural markets, and limited technology. Therefore, the bank is required to invest in technology to deliver these services to rural populations, which can be quite expensive and a high credit risk due to production risk, market risk, weather risk etc. In order to mitigate some of these challenges, the bank has provided micro insurance (agriculture insurance), has

continued to build the capacity of staff for agricultural lending, and has continued to mobilise funds for on-lending and entering into partnership and alliances with other institutions and organisations.

235. The bank provides a wide range of agribusiness products for both savings and credit facilities and has a unique business model for both groups, and individual and SME clients, and has the capacity to absorb additional funds that can be targeted at farmers, especially smallholder farmers. Some of the financial services and products offered by the bank include:

- Dairy farming loans that enable dairy farmers to invest in high breed dairy cows.
- Maziwa Plus Loans to facilitate dairy groups/ associations, societies, individuals, and dairy companies to access loans for dairy production and value addition equipment, including buying additional cows and chilling equipment.
- Green House Farmers Kit is a loan facility that enables farmers to acquire a complete farmer's kit that provides modern farming solutions. It includes quality seeds as well as advanced technology adjusted to customer needs and capacity.
- Dairy goat farming that supports dairy goat farming by enabling farmers to purchase quality dairy goats.
- Aquaculture (fish farming) loans that are input loans offered to clients for excavated ponds or liner ponds as well as affordable fingerlings.
- Apiculture (beekeeping) loans that finances modern bee keeping through the purchase of improved hives and other bee-keeping equipment.
- Agricultural input loan is a product targeting farmers to help them acquire quality inputs for their farming activities affordably.
- Agro-dealer loans targets financing of agro-dealers involved in agricultural value-chains, such as agro-vets, commodity traders, etc.

236. The bank participated in the PROFIT Programme implemented by the national Treasury, which injected KES 205 million in 2012 for on-lending to farmers and other players in the agricultural sector. Since agricultural lending was not one of the bank's core areas, it started by developing agricultural products. Luckily, the programme had a technical assistance package which helped in building the capacity of the staff to develop an agricultural strategy, policy, and operational manual. Initially the bank started by lending to dairy farmers but later expanded to crop farmers and other players, such as input suppliers. By 2019 the bank had lent KES 1.9 billion, which decreased to KES 1.5 billion the following year due to the COVID-19 pandemic.

237. Of importance to note is that the bank seeks to improve its green finance footprint by providing loans for solar lighting solutions and biogas to farmers to enable them to purchase bio-digesters, to use clean cooking and lighting in order to reduce costs and save time,, to reduce indoor and environmental pollution, to use slurry as fertilizer and to improve the lifestyles of farmers.

238. In addition to the bank's support to farmers, it has also partnered with other organisations. It has signed an agreement with the Feed the Future Kenya Crops &

Dairy Market Systems Activity (KCDMS), a United States Agency for International Development (USAID) - funded programme to extend tailored financial services to farmers in Busia and Homa Bay counties. The partnership is intended to benefit at least 10,000 farmers in both counties within three years. To achieve this target, Faulu Kenya is working with farmer groups, with each group having between 30 and 50 farmers. The bank aims to recruit 100 groups annually over the three-year life cycle of the project. Under the partnership, farmers will also benefit from training, capacity building and market access.

239. The outbreak of the COVID-19 pandemic has affected MFIs adversely. The impact on the MFIs' business was significant. The bank was on a recovery path when the pandemic struck. The measures taken by the government to mitigate the effects of the pandemic included movement restriction, restricting of gathering of people, imposition of curfews and closure of business premises, which had a far-reaching impact on all sectors of the economy, from hotels, transport, construction, and MSMES, which are the MFI's main clientele. The effects of these measures were that the bank was unable to meet clients or disburse and collect loans for three months from April, May, and June 2020. The liquidity constraints hampered operations of the bank's business. In the meantime the bank gave lenders moratoriums, which meant additional costs in terms of interest payments.

240. Some of the negative impacts of the COVID-19 pandemic on the bank include reduced interest income, and reduced loan uptake, reduced cash flows. The overall loan book reduced significantly from 2019 to 2020. In numerical terms, the loss before tax increased by 73%, from KES 401 million in 2019 to KES 1.485 billion in 2020. Net interest income reduced by 29%, t from KES 3.513 billion to KES 2.728 billion, while impairment losses increased by 98%, from KES 11 million to KES 642 million in the same period[34].

241. However, business operations started to recover in July 2020 and the MFI undertook strategic changes to ensure that it could endure the COVID-19 pandemic. These changes include a determined shift to use digital technology to deliver services, cost management, revamping of the products and services, mobilization of savings and building strategic partnerships.

vii) FAULU MFB

242. Faulu Microfinance Bank, a tier 1 microfinance bank, is part of the Old Mutual Group. It provides business training for its SME and individual customers to empower them with skills to grow their businesses. It was the leading microfinance bank in profitability and deposits in 2019. Its profit before tax recorded in 2019 was KES. 482 Million, which was up by 76% as compared to 2018 when the bank recorded a profitability of KES 287 million. The bank's balance sheet closed at KES. 29.7 billion, up by 9% compared to KES. 27.2 billion in 2018. Gross loans and advances to

34 KWFT Financial Statements, 2020

customers increased by 10% to KES 21 billion while customer deposits were up by 8% to reach KES 20 billion. The liquidity ratio closed at 26% on account of increased customer deposits, while the bank's capital position remains strong with all metrics above the regulatory thresholds. The core capital to risk weighted ratio of 15.5 % was lower than the prior year when it was 16.9%. This was driven by higher profits and high-risk weighted assets, which improved from 13.07%.

243. In addition to lending to individuals, the MFB also offers wholesale lending services to MFIs and MFIs, with rural clients as the ultimate beneficiaries, based on portfolio performance review of the existing book, full security for the loan and pipeline of potential clients. The interest rate charged is dependent on the level of engagement, ranging (currently) from 7% to 11%, with the level of risk exposure being the biggest determinant. The MFIs and MFIs are free to set their own interest rates when they issue the loans from these funds to their clients (smallholders, SMEs.). However, the intermediary party is free to set the interest rate, with Faulu making recommendations for the same.

244. Faulu Bank participated in the PROFIT programme financed by IFAD and GoK. It has received a credit facility (CF) of KES 200 million and leveraged it to KES 1 billion. It loaned the money to about 13,764 beneficiaries. The loan amount also helped to stabilise its operations. The loan amounts given, and the number of loan beneficiaries increased significantly after the bank was given capacity building training. During these trainings, the financial institutions were supported to develop specific products aligned to the agricultural value chain actors.

245. Faulu believes that the resources may have contributed to increased incomes and food security among the beneficiaries. Outcomes from the farmer group model showed that a significant number of beneficiaries not only gained valuable incomes but also showed tremendous resilience. This was evidenced by the fact that a majority of the beneficiaries were still able to generate money from their business, provide adequate food for their families, and still had their assets acquired before project completion. In the PROFIT programme, the identified four value chains, namely, cereals, dairy, horticulture, and livestock, revamped the products on these lines. The use of aggregators gave the bank and farmers confidence on the marketing of the produce.

246. The bank has an array of products directed towards wholesale lending and agribusiness value-chain clients in its SME and agribusiness products, which include: Kilimo bora loans that are targeted towards groups and individuals for all agribusiness activities; Maziwa bora loans that address the financing needs of dairy farmers, cooperatives and MFIs; and Nafaka loans, a financial solution that meets the needs of cereal farmers, groups, farmer societies and MFIs and that are structured to meet seasonal and financial cycles. The bank is increasing its agricultural lending portfolio and towards this end it has a fully-fledged department for institutional banking and a treasury that oversees deposits and the liquidity aspect of the bank. Through training of the bank's staff internally and by various partners, the bank has now

revamped agriculture lending around four value chains, which include, cereals, livestock, dairy, and horticulture. The proposition is centred on the aggregator model (cooperative, large buyer of the produce, SME, CBO, a factory etc.). The merits of the aggregator model are its ability to reach a larger/bigger clientele base and to ensure that payments are processed centrally, thereby reducing transaction costs. The model also ensures that capacity building can be conducted centrally. Other benefits include offering agriculture insurance through its linkages with UAP Insurance; payments are channelled through the borrower's account in Faulu, further securing its interest and de-risking its portfolio.

247. Some of the challenges in lending to agri-SMEs, and agriculture sectors include information asymmetry/gap among farmers, financial illiteracy/understanding on finance needs and loan repayment structure among smallholder farmers, on boarding and remoteness of farmers, inadequate market linkages and locking of repayments between the farmer, off-taker, and the bank. The challenges faced are generic and cut across the industry in that farmers will opt for substandard farm inputs and thus poor yield. The farmers also lack information about crop insurance, which would cushion them in case of weather perils. However, there are interventions that have been put in place by the bank. These include partnerships with organisations that provide inputs and offtake products, aggressive farmer training and working with agronomists in the field.

viii) ECLOF Kenya

248. ECLOF Kenya is currently a credit-only microfinance institution providing financial and related non-financial services in Kenya and to all sectors of the economy. ECLOF Kenya has a rural presence, with 42 branches in 33 countries and serving over 60,000 clients. The MFI has a portfolio in excess of KES 1 billion (~ USD 10 million), of which KES 231 million (23%) is invested in agriculture. It is currently a Microfinance Company Limited by Guarantee but is in the process of becoming a shareholder-owned institution, with the objective of becoming a deposit-taking institution in the coming years[35].

ECLOF is deepening its presence in lending to agriculture and other players in the rural sector and is scaling up dairy lending across all viable business clusters, with farmer groups and cooperatives being the product nerve centres. The MFI plans to roll this out through a robust capacity development programme that targets staff, partner cooperative leaders and farmers across its network of branches. ECLOF Kenya has worked with numerous partners, in line with its mission to enable clients to realise their dreams and experience the abundance of life through the provision of financial and related non-financial services. These partners include DFID, the USAID-supported Kenya Crops and Dairy Market System (KCDMS), Kiva, Unilever, Water org, and ORB Energy, among others.

[35] Service Delivery Model Assessment -Public Report September 2018

249. ECLOF's main loan products include monthly climate smart agriculture (a dairy loan started in 2015 that had lent KES 29 million to over 200 farmers by May 2018. Its loan pricing and structure is a 3–9-month farmer input loan at below market rate, enabled by a repayable grant from DFID to eliminate the loan cost of the capital. No collateral is required, only six weeks of savings and proof of six months of milk deposits to an aggregator. The loans are disbursed either directly to the farmer through their loan group – via a combination of various delivery channels, for example the mobile money transfer platform M-Pesa, and subject to assessment of intended dairy farming expenditures – or through the partner aggregator for feed or purchase of a new cow.

250. The loan is repaid monthly through the partner aggregator who tracks the deposited milk and pays the farmers after subtracting the loan repayment. There are additional services offered by the MFI, including access to livestock insurance, guaranteed off-take by the partner aggregator and access to climate smart and good agricultural practices training, including farm diversification training, demo farms, and financial literacy training access to veterinary services provided by the partner aggregator.

251. The MFI is also moving into green financing by providing loan products for improving access to clean water, proper sanitary facilities, such as construction of environmental-friendly toilets, including ventilation improved pit (VIP) latrines, roof water catchment, water tanks, water purifiers, tanks and collectors, or shallow wells, in addition to financing energy-efficient cooking stoves (jikos) and solar panels for charging phones and operating a lamp, a small radio or a solar-powered TV. Children now have light to do their homework, solar and heating. Towards this end, since 2011, ECLOF Kenya has disbursed loans worth over KES 260 million to over 6,200 clients (the average loan size is around KES 40,000). As a result, some clients enjoy greater comfort and hygiene; others collect water for a farm or family, while yet others start a small business as water vendors.

ix) Juhudi Kilimo MFI

252. Juhudi Kilimo is the second largest non-deposit-tracking (credit-only) MFI in the country in terms of branch and county coverage. The MFI has a variety of loan products that enable farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, goats, sheep, donkeys, rabbits, bee keeping, animal feeds and fish farming, among others. They include:

- Animal farming loans that enable farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, dairy goat farming, sheep, rabbits, bee keeping and fish farming, among others.
- Farm equipment loans targeting farmers to help them acquire quality farm equipment, such as generators, water tanks, water pumps, milking cans, biogas digesters, motorcycles, posho mills, chaff cutters, green houses, irrigation

equipment, milk freezers, milking machines, ATM milk dispensers, ploughing tools/equipment, and animal housing structures.

- Working capital loans targeting farmers and micro entrepreneurs to enable them to expand their businesses and invest in agri-processors, agrovets, animal trade, cereals, groceries, milk vending, transport services and veterinary services, among others.

253. In addition to deepening financial literacy for the sound management of loans, Juhudi provides business management, technical and financial literacy training to rural smallholder farmers and micro entrepreneurs. This loan product enables farmers to acquire a wide range of farm animals and invest in high breed dairy cows, poultry, goats, sheep, donkeys, rabbits, bee keeping, animal feeds and fish farming, among others.

254. Juhudi Kilimo's main focus is predominantly smallholder farmers. It uses the group lending methodology and the results have been impressive. Its loan book has grown from KES 497 million in 2013 to KES 1.77 billion in 2020 (an increase of 256%), while its customer base has increased from 12,375 to 45,672 (an increase of 269%) in the same period. Its strategic thrust in the next few years is on growth, sustainability, and impact. The MFI assesses or qualifies clients to receive progressively higher loans as farmers repay their loans, reassessing a farmer's debt capacity at each level. Starting with loans of, for example, KES 100,000, farmers can apply for up to double the earlier amount at each successful full repayment, with a cap at KES 100,000. Every loan goes through a new credit appraisal, and approval is not automatic. It also offers top-up loans for energy devices (such as solar lanterns and improved cooking stoves), education and emergencies to its most loyal clients.

255. Juhudi Kilimo is already working in the green finance space by providing loans for investment in green/clean energy investment and to customers seeking financing for eco-friendly products, such as solar water pumps, solar home systems, modern cooking stoves, solar TVs, and biogas systems that use energy generated from natural resources that are renewable (naturally replenished). The areas of focus include solar panels, solar pumps, sola lanterns, solar installations, solar batteries, solar TVs, and improved cooking stoves.

x) SUMAC MFB

256. Sumac Microfinance Bank was established in 2002 by a group of 14 investors who initially formed an investment group to help chart out a better future for themselves. In 2004, the institution opened its doors to the public as Sumac Credit Limited with a mission to empower businesspeople who could not match the stringent loan requirements by commercial banks. In 2012, we were duly licensed as a Microfinance Bank by the Central Bank of Kenya to take deposits. We have since been referred to as Sumac Microfinance Bank Ltd. The P+MFB has continued to expand and has 4 branches (Ngara, Nairobi, Githunguri, Nakuru and Thika) and plans are underway for the opening of more branches across the country with targeted.

257. Since 2012 the MFB’s customer base has grown and the bank is currently managing over KES 500 million worth of customer deposits, loan book standing at KES 900 million and operating a balance sheet of KES 1.3 billion. Sumac has been able to team up with local and international partners for funding and currently the bank has a customer base of 10,000.

258. These include Regmifa Fund Triple Jump, both from the Netherlands. For strategic reasons, the firm has just partnered with Badoer Investments Limited from Dubai, UAE which has taken over 15.6% shareholding. As part of its expansion the bank is also targeting diaspora banking and partnering with local commercial banks and other organisation, which include Micro Enterprises Support Programme Trust (MESPT), Development Bank and Credit Bank.

259. The MFB’s expansion will continue in coming years in a strategic approach to seek to meet the needs of its clients countrywide. The bank has a strong presence in asset financing products, especially on motor vehicles and agricultural equipment that as well as business loans with clients paying a 30 per cent deposit on all vehicle purchases while Sumac Microfinance Bank finances the remainder 70 per cent. In addition, the MFB has ventured in agricultural financing with a facility for dairy farmers, that include financing farmers to acquire dairy cattle in a facility that is also insured, to cushion them against any animal losses and which has also opened credit lines to women and the youth in the rural areas where they own no other form of security except livestock, allowing them once they have cleared paying for a facility to take up new ones.

260. It is worth noting that Sumac has been able to team up with other local and international partners for funding as well. These include Regional MSME Investment Fund for Sub-Saharan Africa (Regmifa) and Triple Jump, both from the Netherlands. Local Sumac partners include Micro Enterprises Support Programme Trust (MESPT), Development Bank and Credit Bank. The MFI has already received KES 150 million from the Regmifa, KES 45 million from the Development Bank of Kenya, KES 30 million from the Micro Enterprises Support Programme Trust (MESPT) USD2 million (KES 200 million) from US-based Social Investment Managers & Advisors (SIMA) LLC.

261. The MFB is also moving into green finance and is providing finance for acquisition of green energy assets. The bank is providing Kawi loan (a clean energy product) which is meant to help individuals access clean (solar) energy equipment and installation, including cooking stove, biogas, solar panel, and installation of generators for the same. The loan product targets dairy farmers for biogas and light industries and micro client for cooking stoves.

262. To further deepen the green finance business the MFB entered a long-term agreement with the Kenya Biogas Programme (KBP)[36] to sell biogas to both existing and potential clients throughout the country. Plans are at an advanced stage to roll-out the project, in which farmers will access funding from Sumac MFB to acquire the biogas facilities, and then pay the loan monthly over a convenient period of time.

263. Digitization provides an opportunity for microfinance providers to leverage their license, customer base and outreach to rural areas and low-income clients and digital solutions help financial institutions deepen customer engagement and product usage, and in turn promote and increase financial inclusion. Sumac MFB has leveraged on innovation through its M-banking platform, which is integrated into a vibrant core banking system in order to provide financial services more efficiently and effectively.

264. Businesses across the world and country in almost all sector s of the economy have gone through particularly rough stretch in the last fifteen months since March 2020. The diminished earning capacity of their clients threatens to undermine the strong repayment culture on which microfinance depends. Sumac has not been an exception, but the management and board of the bank is still hopeful of a bright future. The bank responded to the pandemic in two ways, that is, by providing repayment deferrals and restructuring loans, which is being review on a need-basis and case-by case basis.

11. SUMMARY OF MFIs' POTENTIAL TO PARTICIPATE IN RK FINFA

Strategies, challenges, and opportunities

265. The MFIs that have been profiled play a key role in supporting smallholder farmers in their agribusiness operations through offering credit facilities and training to boost their economic value and ensure food security both at the community and household levels. The MFIs provide a wide range of agribusiness products for both savings and credit facilities and have unique business models for groups, individual and SME clients and have the capacity to absorb additional funds that can be pushed towards farmers, especially smallholder farmers.

266. Although for most of MFIs farmers are not their main clientele, they are increasingly becoming keen to lend to the stakeholders operating in the sector. They have subsequently diversified their lending to agriculture and have a broader menu of products for the farming community. They provide a variety of delivery channels

[36] The Kenya Biogas Program (KBP), a constituent of the Africa Biogas Partnership Program (ABPP) aims to achieve the development of a commercially viable domestic biodigester sector in Kenya by 2019.

and operations and their products and services are open to organised groups, organisations, and individuals.

267. Some of the MFIs, such as Kenya Women Microfinance Bank, Faulu and SMEP participated in the PROFIT Programme implemented by the National Treasury and IFAD. They received funds in 2012 for on-lending to farmers and other players in the agricultural sector, which luckily was accompanied by a technical assistance package that helped in building the capacity of the staff to develop an agricultural strategy, policy, and operational manual.

268. Some of the MFIs are moving into green financing by providing loan products for improving access to clean water, proper sanitary facilities, such as construction of environmental-friendly toilets, ventilation improved pit (VIP) latrines, roof water catchment, water tanks, water purifiers, tanks and collectors, or shallow wells, in addition to financing energy cooking stoves (jikos), and solar panels for charging phones and operating lamps, radios or solar-powered TVs.

Assessment of the technological/operational capacity of the MFIs and quality of the MIS system

269. The MFIs would be willing to participate in RK FINFA in order to increase agriculture lending and to finance the expansion of its agribusiness product offering. Some of the challenges they have faced in lending to farmers, agri-SMEs and MSMEs in the rural and agriculture sectors include high cost of funds and delivering financial services, lack of adequate market linkages and non-predictability of the agricultural markets, and limited technology. They therefore they are required to invest in technology to deliver these services to rural populations, which can be quite expensive and a high credit risk due to production risk, market risk, weather risk etc.

270. In the age of data-driven services, some MFIs, such as Musoni have demonstrated that providers of digital inclusive financial services can embrace technology and reach out to ever-greater numbers of low-income people, while mitigating risks and implementing client protection principles. Client protection policies are a useful tool in the efforts to improve the lives of low-income people and their communities, enabling microfinance institutions to maximise their social impact.

271. A summary of the profiles of 5 MFIs active in agricultural finance is shown in the table below.

Table 3: Summary of the profiles of 5 MFIs active in agricultural finance

MFIs	KWFT	FAULU	SUMAC	ECLOF	Juhudi Kilimo
Financial soundness[1]	✓	✓	✓	✓	✓

Have an agriculture strategy? [2]	✓	✓	X	X	X
Staff has agri-capacity[2]	✓	✓	✓	✓	✓
Rural outreach (branches)	✓	✓	✓	✓	✓
Already offering agricultural loans	✓	✓	✓	✓	✓
Targeted agricultural finance product development	✓	✓	X	✓	✓
Need technical services /opportunities to participate in the RK FINFA programme	✓	✓	✓	✓	✓
Quality of MIS[3]	✓	✓	X	X	X

10 Although the financial statements are fine, it is important to point that it is not feasible to deeply interrogate financial statement in this kind of exercise. They are taken as-is. The RK FINFA would need to undertake due diligence of financial institutions to participate in the RK FINFA programme during implementation
11 KWFT and Faulu participated in the PROFIT programme
12 The quality of the MIS will have to be vouched for after due diligence if the MFIs were to participate in the RK FINFA programme

272. MFIs have proved to be resilient institutions in the agricultural and rural sector. This is especially true of farmer-based MFIs whose main clients are small-scale farmers spread across the country. However, these MFIs have inadequate finances to enable them serve farmers and other AVC players adequately. If they could partner with more and better capitalised financial institution through participating in a project such as RK FINFA they can reach deepen financial inclusion in the rural areas, where penetration is still low. To ensure that the injection of finance meets its objectives it should be accompanied by capacity building by way of technical support services in aspects such as (i) design and implementation of demand for and supply agricultural finance to help the MFIs understand different smallholder segments and their needs; (ii) product design and piloting to reduce the costs and risks of new market entry and innovation; (iii) systems improvements to adapt MIS/core banking systems and use technology solutions, such as automation of data capture and analysis to accommodate tailored credit assessment, portfolio monitoring requirements, and loan repayment schedules; (iv) design of staff incentive plans to promote agricultural lending; (v) introduction of product-costing practices to inform product and program design and to help to make the business case for new market entrants; and (vi) design and piloting of new delivery channels to reduce the costs and risk of lending.

ANNEX 1: Central Bank of Kenya Directory of licenced Microfinance Banks

NO.	MICROFINANCE BANK
1.	Caritas Microfinance Bank Limited Postal Address: P. O. Box 15352 - 00100, Nairobi Telephone: +254 - 020 - 5151500 Email: info@caritas-mfb.co.ke Website: www.caritas-mfb.co.ke Physical Address: Cardinal Maurice Otunga Plaza, Ground floor, Kaunda Street, Nairobi Date Licenced: 02.06.2015 Branches: 2
2.	Century Microfinance Bank Limited Postal Address: P. O. Box 38319 - 00623, Nairobi Telephone: +254 - 020 - 2664282, 0722 - 168721, 0756 - 305132 Email: info@century.co.ke Website: www.century.co.ke Physical Address: Bihi Towers, 8th Floor, Moi Avenue Date Licenced: 17.09.2012 Branches: 2
3.	Choice Microfinance Bank Limited Postal Address: P. O. Box 18263 - 00100, Nairobi Telephone: +254 - 020 3882206 / 207, 0736 - 662218, 0724 - 308000 Email: info@choicemfb.com Website: www.choicemfb.com Physical Address: Siron Place, Ongata Rongai, Magadi Road, Nairobi Date Licenced: 13.05.2015 Branches: 1
4.	Daraja Microfinance Bank Limited Postal Address: P.O. Box 100854 - 00101, Nairobi Telephone: +254 - 020 - 3879995 / 0733 - 988888, 0707 – 444888, 0718 - 444888 Email: daraja@darajabank.co.ke Website: www.darajabank.co.ke Physical Address: Karandini Road, off Naivasha Road, Nairobi Date Licenced: 12.01.2015 Branches: 1
5.	Faulu Microfinance Bank Limited Postal Address: P. O. Box 60240 - 00200, Nairobi Telephone: +254 - 020 - 3877290/3/7; 3872183/4; 3867503, 0711 - 074074, 0708 - 111000 Fax: +254-20-3867504, 3874875 Email: info@faulukenya.com, customercare@faulukenya.com, contact@faulukenya.com Website: www.faulukenya.com Physical Address: Faulu Kenya House, Ngong Lane - Off Ngong Road, Nairobi Date Licenced: 21.05.2009 Branches: 39

NO.	MICROFINANCE BANK
6.	Kenya Women Microfinance Bank PLC Postal Address: P. O. Box 4179-00506, Nairobi Telephone: +254 - 020 - 3067000, 2470272-5/2715334-5, 0729920920, 0732633332, 0703 - 067000 Email: info@kwftbank.com. Website: www.kwftbank.com. Physical Address: Akira House, Kiambere Road, Upper Hill, Nairobi Date Licenced: 31.03.2010 Branches: 31
7.	Rafiki Microfinance Bank Limited Postal Address: P. O. Box 12755 - 00400, Nairobi Telephone: +254-020-2166401/0730 170 000/500 Email: info@rafiki.co.ke Website: www.rafiki.co.ke Physical Address: Rafiki House, Biashara Street, Nairobi Date Licenced: 14.06.2011 Branches: 17
8.	Key Microfinance Bank PLC Postal Address: P. O. Box 20833 - 00100, Nairobi Telephone: +254 - 020 - 2214483/2215384/ 2215387/8/9, 2631070, 2215380, 2215384/5/7/8/9, 0733-554555 Email: info@keymicrofinancebank.com Website: www.keymicrofinancebnk.com Physical Address: Finance House, 14th Floor, Loita Street, Nairobi Date Licenced: 31.12.2010 Branches: 2
9.	SMEP Microfinance Bank Limited Postal Address: P. O. Box 64063 - 00620, Nairobi Telephone: +254 - 020 - 3572799/2055761, 2673327/8, 0711606900 Email: info@smep.co.ke Website: www.smep.co.ke Physical Address: SMEP Building - Kirichwa Road, Off Argwings Kodhek Road, Nairobi Date Licenced: 14.12.2010 Branches: 7
10.	Sumac Microfinance Bank Limited Postal Address: P. O. Box 11687 - 00100, Nairobi Telephone: +254 - 020 - 2212587, 2210440, 2249047, 0738637245, 0725223499 Fax: 20 2210430 Email: info@sumacmicrofinancebank.co.ke Website: www.sumacmicrofinancebank.co.ke Physical Address: Consolidated Bank House, 2nd Floor, Koinange Street, Nairobi Date Licenced: 29.10.2012 Branches: 3

NO.	MICROFINANCE BANK
11.	U & I Microfinance Bank Limited Postal Address: 15825 - 00100, Nairobi Telephone: +254 - 020 - 2367288, 0713 - 112791 Email: info@uni-microfinance.co.ke Website: www.uni-microfinance.co.ke Physical Address: Asili Complex, 1st Floor, River Road, Nairobi Date Licenced: 08.04.2013 Branches: 1
12.	Uwezo Microfinance Bank Limited Postal Address: 1654 - 00100, Nairobi Telephone: 2212919, 0703591302 Email: info@uwezomfbank.com Website: www.uwezomfbank.com Physical Address: Rehani House, 11th Floor, Koinange Street, Nairobi Date Licenced: 08.11.2010 Branches: 1
13.	Maisha Microfinance Bank Ltd Postal Address: 49316 - 00100, Nairobi Telephone: 020 222 0648 | 0736-028-982 | 0792-002-300 Email: info@maishabank.com Website: www.maishabank.com Physical Address: Chester House, 2nd Floor, Koinange Street, Nairobi Date Licenced: 21.05.2016 Branches: 1
14.	Muungano Microfinance Bank PLC Postal Address: 355-10218, Kangari, Murang’a Telephone: 020-4404173 | 0706-974-747 | 0706-975-522 Email: info@muunganomfbank.co.ke Physical Address: Eastend Mall Kangari Township, Kangari-Githumu Road Date Licenced: 30.10.2019 Branches: 1

RK-FINFA PIM APPENDIX 3:
ENVIRONMENTAL, SOCIAL AND CLIMATE CHANGE MANAGEMENT

Contents

Acronyms and Abbreviations

ASALs	Arid And Semi-Arid Lands
CA	Conservation Agriculture
CC	Climate Change
CEnvO	County Environment Officer
CNRMO	County Natural Resource Management Officer
COK	Constitution of Kenya
COVID-19	Coronavirus Disease 2019
CPFT	County Project Facilitation Team
CPR	Comprehensive Project Report
CSA	Climate Smart Agriculture
CSSO	County Social Services Officer
E&S	Environmental and Social
ECCO	Environment and Climate Change Officer
ERO	ESMS Responsible Officer (for PFIs)
ESC	Environmental, Social and Climate Change
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
GALS	Gender Action Learning System
GFF	Green Financing Facility
GCF	Green Climate Fund
GoK	Government of Kenya
GRM	Grievance Redress Mechanism
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IP	Indigenous Peoples
IPP	Indigenous Peoples Plan
IPPF	Indigenous Peoples Plan Framework
MALF	Ministry of Agriculture, Livestock and Fisheries
MFB	Microfinance Bank
MFI	Microfinance Institution
MITC	Ministry of Information, Communication and Technology
MITED	Ministry of Industry, Trade and Enterprise Development
MOEF	Ministry of Environment and Forestry
MPSYG	Ministry of Public Services, Youth and Gender
MSME	Micro, Small and Medium Enterprise
NDC	Nationally Determined Contributions
NEMA	National Environment Management Authority
NT&P	National Treasury & Planning
PCR	Project Completion Report
PDR	Project Design Report
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PMU	Project Management Unit
PSC	Project Steering Committee
PWD	Persons Living with Disabilities
RF	Rural Finance
R-CGS	Rural Credit Guarantee Scheme
RK-FINFA	Rural Kenya Financial Inclusion Facility
SACCO	Savings and Credit Cooperative Society
SASRA	Sacco Societies Regulatory Authority
SDG	Sustainable Development Goal
SECAP	Social Environment and Climate Assessment
SIO	Social Inclusion Officer
SME	Small and Medium Enterprise
SPR	Summary Project Report
TA	Technical Assistance

1 Introduction

RK-FINFA may have environmental and social risks resulting from its activities, particularly the end line investments by the smallholders and MSMEs. In order to ensure that potential adverse impacts are minimised, environmental, social and governance standards will be a criterion for participation in the project by the partner financial institutions (PFIs) and technical assistance will be provided to strengthen or establish their Environment and Social Management Systems (ESMS). Some commercial banks and microfinance banks (MFBs) may already provide services and products for sustainable production, biodiversity and environmental protection, energy efficiency and renewable energy and may have established ESMSs that enable reporting on these portfolios. While it is unlikely that rural SACCOs have the capacity and resources to develop and implement ESMSs, guidance and capacity building would have to be provided to them to ensure environmental and social risks emanating from their activities will be avoided or minimised, and to set up monitoring and reporting systems.

Specifics of the nature of activities and interventions to be supported through RK-FINFA will be determined when PFIs review loan applications. This document is intended to provide guidance to the management of environmental, social and climate change (ESC) related risks and impacts of potential project activities that will be financed by RK-FINFA supported PFIs, SACCOs and MSMEs. It sets out the framework for these institutions to develop environmental and social management systems. It identifies specific criteria for screening of investments and steps for establishing or strengthening of the various PFI's ESMS.

2 Potential Environmental, Social and Climate-Related Impacts of RK-FINFA Interventions and their Mitigation & Management

2.1 Benefits of RK-FINFA

The Project has been designed to provide numerous socio-economic benefits for different stakeholders and target groups. These are summarised in Table 2-1 below. The project will benefit 190,000 rural Kenyan households, including both direct and indirect clients. The targeting focus is on low-income, economically active rural households, with specific targets on 50 per cent of women and 30 per cent of youth participation in both capacity building and financing activities.

Table 2-1 RK-FINFA Benefits

Target Group	Expected Benefits
Environmental and Natural Resources	
Smallholder producers	• Increased productivity in agriculture value chains • Technical support to climate smart agriculture resulting in improved soil and water conservation and improved handling, storage and application of fertilizers; • Reduction in mortality and morbidity risks in livestock ruminant numbers thereby reducing the pressure on rangelands. • Improved knowledge and skills for natural resources management as a result of the advisory services (GFF)
Socio-Economic	
Smallholder households and producers	• Direct and indirect financial services provided to an estimated 66,000 economically active smallholder households. • 90,000 smallholder households through participation in the VCs strengthened by the supported agribusinesses. • Estimated 32,000 persons will gain employment in the RK-FINFA supported farm and off-farm employment activities.
Women	• 50% of beneficiaries will be women, youth comprise 30% and a minimum of 5% of beneficiaries will be from vulnerable groups (marginalized groups including persons with disabilities and persons with HIV). • Financial support provided to women-owned micro and small and medium enterprises (SMEs) that have growth potential, through participating financial institutions including MFBs/MFIs and SACCOs. • Technical support services provided to women to build their capacity in agribusiness, their groups and associations and to build capacity of MFBs/MFIs, SACCOs to support the development of women owned agribusiness and financial products. • Access to information, knowledge and financial services for women will be through financial literacy, business development services, follow-up and training, and access to digital platforms such as through mobile phones. • Women will receive 50 percent of the training in business skills. • Leadership trainings and mentorship of women in farmer and agribusiness groups, village savings and loan groups, associations and co-operatives.

Target Group	Expected Benefits
Youth	• 30% beneficiaries will be youth. • Youth-sensitive financing modalities will facilitate access to affordable finance and productive assets. • RK-FINFA will leverage on the private sector to pilot and scale-up digital solutions that will positively impact rural young women and men. • Capacity building on financial literacy and business development training, business skills provided to equip youth with tools for mindset change and confidence to make sound financial decisions, in turn enabling them to manage financial services. • RK-FINFA will encourage the use of youth as financial agents and educators in project activities to empower their leadership skills.
Vulnerable groups	• 5% of beneficiaries will be from vulnerable groups (marginalized groups including persons with disabilities and persons with HIV).
Rural MSMEs	• 2,000 rural MSMEs engaged in smallholder-inclusive value chains.
Financial institutions	• PFIs can expand their targeted area of investments with RK-FINFA resources to any rural county in Kenya.
Climate Change	
Smallholder households and producers	• Technical assistance provided to target beneficiaries to support increased resilience and ability to cope with climate risks. • Renewable energy use and improved resource use efficiency for climate change mitigation

It is expected that rangeland interventions will contribute to the protection and conservation of key grazing areas and regulate seasonal access. This will then have a positive effect on livestock production as it will ensure availability of pasture, even during times of climatic stress. Moreover, the climate resilient water infrastructure is meant to ensure that water is available for both human and livestock use throughout the year.

2.2 Potential Environmental, Social and Climate Change Risks and Impacts

Table 2-2 below summarises some generic risks and adverse impacts that may result from RK-FINFA supported activities. Please note that risks, impacts and mitigation measures in the table are not exhaustive since the exact types of interventions to be supported by the Project are not yet known.

Table 2-2 Examples of Environmental, Social and Climate-Related Risks and Impacts

Environmental, Social and Climate Aspects, Risks and Impacts	Recommended Mitigation/Enhancement measures
Environmental Risks and Impacts	
Abstraction of water for irrigation and aquaculture resulting in depletion of aquifers, particularly in the dry season leading to threats to aquatic ecosystems.	• Adhere to permitted abstraction volume as stipulated in water user/abstraction permits.
Excavation activities and/or clearing of vegetation during construction of irrigation	• Minimise/prevent soil erosion by controlling earthworks, installing and maintaining drainage structures and erosion control measure; use zero-till/reduce till methods of land preparation

Environmental, Social and Climate Aspects, Risks and Impacts	Recommended Mitigation/Enhancement measures
schemes, buildings/workshops, storage and processing facilities, leading to: - Soil erosion, - Dust emissions, - Loss in biodiversity; - Resulting increase in runoff also may lead to deterioration of water quality (sediment load) in water sources and/or sea	• Mitigation through restoration of the sites after works in accordance with contractors environmental and social management plans (CEMPS) • Any existing riparian vegetation should be maintained (not cleared) • Use zero-till/reduced till methods for land preparation • If mechanized clearing and where water is available, keep dust down by watering exposed/ worked surfaces • If possible, schedule clearing activities such that they avoid the height of the dry seasons. • Careful and continuous supervision of clearing activities so that only areas required for plot/fields are cleared. • Monitor water quality
Use of agrochemicals, leading to pollution due to leaching, seepage or transmission of agrochemicals through the soil into water sources; threats to aquatic ecology, including bio-magnification of toxins in tissues of aquatic fauna, and/or species die off; loss of biodiversity, ecological imbalances, caused by poisoning of non-target species, particularly bees and other beneficial insects; resistance to pesticides and pest resurgence.	• Prepare and implement an Agrochemical Management System, and an Integrated Pest Management Plan • Minimise use of agrochemicals through adopting conservation agriculture techniques, explore organic/natural fertilizers, agrochemicals • Manual removal of weeds • Careful supervision of application of agrochemicals • Use agrochemicals registered and approved by MALF, WHO and FAO • Train farmers/aquafarmers in proper use, handling, storage, and disposal of agrochemicals. • Ensure agrochemical containers are disposed of as hazardous waste according to NEMA's waste management regulations • Keep records of agrochemicals used, application amounts. • Monitor water quality in soils and water sources
Over-watering of fields leading to water logging and salinization	• Control water supplied to fields • Fields should have slight gradients so as to allow drainage of excess water • Maintain drainage canals and other drainage structures
Discharge of contaminated water from aquaculture ponds entering surface water bodies or contaminating soil.	• Monitor water quality discharged from fish ponds and irrigation canals • Treat effluent to conform with NEMA's Water Quality Regulations
Oil pollution from spills or leaks fuel, oils and lubricants from farm machinery,	• Where fuel is stored in bulk, the fuel tank should be contained in a bund of 110% tank capacity • Where fuel drums are used these should be stored on sump pallets. • Establish procedures for fuel delivery; decanting/draining; use, storage; spill response; disposal of waste oil; handling of oil products
Excessive noise from working machinery, drilling boreholes, etc.	• Adhere to standards as prescribed in NEMA's Noise and Excessive Vibration Pollution (Control)Regulations • Install noise reduction technologies in machinery, generators, etc.
Generation of waste such as food waste, packaging, scrap metal leading to health risks from proliferation of vermin, obstruction of access	• Dispose of solid waste as per best practice guidelines: recycle, reuse, recover and reduce waste, and in line with NEMA's Waste Management Regulations • Sensitise construction workers, farmers, fishers, processors, on waste management practices
Risk of fire destroying structures and surrounding vegetation, and causing air pollution, and solid waste pollution from fire debris	• Prepare emergency preparedness and response plan • Training in emergency response as per plan

Environmental, Social and Climate Aspects, Risks and Impacts	Recommended Mitigation/Enhancement measures
Social/Socio-Economic Risks and Impacts	
Irrigation, aquaculture resulting in reduced availability of water for other ongoing and planned developments, causing conflict between communities and project-supported interventions Competition for water sources with community sources	• Ensure community water sources are not compromised • Establish grievance redress mechanism to deal with conflicts
Poor application and handling of agrochemicals: touching, inhaling or ingesting toxic chemicals leading to dermatological or gastric ailments, or poisoning.	• Develop agrochemical management system and IPMP describing handling, storage, use and disposal of all agrochemicals used on the schemes. • Train farmers in the handling, safe storage, application and disposal of all agrochemicals.
Poor treatment application methods and improper storage leading to proliferation of aflatoxins and resulting health effects on community	• Remove sources of contamination, promoting better agricultural and storage techniques (control moisture, temperature, and aeration) • Ensure adequate resources are available for testing and early diagnosis, and enforcing strict food safety standards, • Sensitisation of farmers and consumers about risks of aflatoxins • Create general awareness about personal protection • Chemical decontamination or use of enterosorbents for contaminated grains
Accidents and injuries to workers due to movement of materials into construction sites, as well as construction activities, for processing plants, treatment and storage facilities, workshops, laboratories, etc. Accidents and incidents, electrocution, from handling machinery and working with electrical systems, during operation/implementation in buildings/warehouses	• Provide adequate and appropriate PPE such as safety boots, helmets, gloves, overalls and this should be in keeping with the task and exposure a worker is subjected to • Comply with OSHA requirements and best practice • Provide training to all relevant personnel in necessary OHS requirements to ensure their safety • First Aid Kit must be kept on the site and modestly stocked with necessities for any emergencies. • Prepare an Emergency Preparedness and Response and Evacuation Plan • Train all personnel in emergency response
Women may be marginalised from participating in cultivation if access to training is limited and if technologies make it difficult for women	• Continuous consultations and dialogue between project implementors and potential women participants/ beneficiaries to establish how to overcome some of these difficulties.
Gender based violence (GBV) i.e. transactional sex (food crops/fish for sex) and Intimate Partner Violence, child labour	• Create awareness on prevention, handling and referral for all forms of GBV and child labour – integrated in the project activities
Retrogressive social norms prevent women and youth from participating and benefitting from project-supported activities	• Use of GALS methodology and/or other gender participatory methodologies to empower women and make women's roles, needs and aspirations visible; and sensitizing smallholder farmers, women, men and youth to increase their participation • Increasing women's access to knowledge, skills, inputs and finance through training, matching grants, exposure visits and GALS fairs • Increasing women and youth's visibility as actors in the value chains through representation quotas
Inequitable labour and working conditions.	• Ensure labour and working conditions are in line with national labour laws and ILO core conventions: equal pay, non-discrimination
Inadequate consultation of various stakeholders, particularly with vulnerable and disadvantaged members of the communities may result in reduced uptake of linkages, promoted varieties, attendance at field schools, enhanced marketing, value chain interventions	• Carry out continuous, extensive and inclusive consultations with stakeholders, particularly vulnerable and disadvantaged groups, during entire project period • Set up and disseminate Grievance Redress Mechanism which should be accessible to all stakeholders

Environmental, Social and Climate Aspects, Risks and Impacts	Recommended Mitigation/Enhancement measures
Risk of fire on spreading to neighbouring premises, and causing injury/fatalities to workforce and neighbours.	• Prepare and train in emergency preparedness and response plan
Impacts of COVID-19 may affect output, or cause lockdowns which disrupt transportation modes resulting in spoilt goods.	• Ensure guaranteed markets • Encourage smallholder farmers to develop alternative livelihood means through safety nets
Climate Risks and Impacts	
Pests and disease outbreaks, including locusts, fall army worm, fish diseases	• Establish early warning systems • Farmers to be trained in accessing climate early warning systems • Encourage farmers to develop alternative livelihood means through safety nets • Develop and implement IPMP
Excessive rain, wind or floods may damage buildings (warehouses, milling posts), roads (disrupting transport of produce) and water infrastructure.	• Install and maintain drainage structures to regulate stormwater and runoff/run on • Provide guidance on siting, design and construction of robust infrastructure
Excessive rain, wind or floods may cause severe soil erosion	• Install and maintain drainage structures to regulate stormwater and runoff/run on • Use zero-till/reduced till methods for land preparation • Provide guidance on siting, design and construction of robust infrastructure
Droughts / prolonged dry periods leading to water unavailability /scarcity	• Establish early warning systems • smallholder farmers to be trained in accessing climate early warning systems • Encourage smallholder farmers to develop alternative livelihood means through safety nets • Establish alternative water supplies, eg. rainwater harvesting, storage facilities for times of spate
Disillusion/distrust as a result of delayed implementation	• Continuous communication with stakeholders at all levels.
Poor safeguards measures in procurement	• Ensure procurement of safeguards related studies is done in accordance with IFAD's procurement guidelines

3 Climate Risk Assessment

3.1 Background

Kenya has been negatively affected by climate change in most sectors of its economy including crop and livestock production, tourism, transport among others. Climate variability and climate change is increasingly felt across the country and the duration between climate hazards such as droughts and floods has become shorter, with wide reaching impacts and losses. Kenya's mean annual temperature is expected to increase by 1.00C to 2.80C by 2060, while rainfall is expected to increase by up to 49mm per month. More hotter days are being experienced in Kenya, particularly during the long rainy seasons, when most farmers are planting.

Partly due to El Niño and La Niña episodes, Kenya is prone to cyclical prolonged droughts and serious floods, with climate change increasing the intensity and frequency of these events. Northern Kenya's arid and semiarid lands (ASALs) are food- and water-insecure regions dependent on limited and highly variable rainfall. Rising temperatures, heat waves, changes in seasonal rainfall and extreme rainfall events intensify risks to livestock and crop production, and to human health through heat and water stress, disease, damage to crop and grazing lands and diminished water quality. Drought frequencies have increased to every 1-3 years which has in some instances resulted in losses of up to 60% of livestock in recent years in Marsabit County. During drought, livestock become emaciated and their value drops drastically. Prolonged drought has also resulted in long-term environmental changes such as deforestation, drying up of rivers and shallow wells, increased incidences of new pests, weeds and diseases, land degradation and amplified wildlife-human conflicts. Such climate related events could lead to emergence or re-emergence of climate related diseases, such as the Rift Valley Fever or anthrax, which re-emerges, periodically in ASAL areas after occasional heavy rains and flooding.

The western counties (Trans Nzoia, Kakamega, Bungoma, Siaya and Busia) are relatively cooler, wetter and the mean annual temperatures are lower. In various climate projection scenarios, western regions will more likely experience extreme events related to floods and landslides (caused by a combination of deforestation, intensive rainfall, soil erosion and agricultural activities on hilltops). Farmers in this region have also noted changing seasonality, i.e., delayed onset of rains, unreliability and variability of rains, reduced or increased amounts of rainfall, and higher temperatures during the dry season. All these present major risks to crop production and livelihoods.

3.2 Risk Classification

The purpose of climate risk screening is to determine the exposure of the Project to climate-related risks (High, Moderate or Low) based on available information about historic climate hazard occurrences, current climate trends and future climate change scenarios, as well as to assess the likelihood of the Project increasing the vulnerability of the expected target populations to climate hazards. It provides an opportunity to integrate climate issues into Project design and therefore increase Project resilience and hence sustainability.

IFAD's climate risk screening criteria are presented in Table 3-1 below.

Table 3-1 Climate Risk Screening

Climate Categorisation	Types of Projects
High Risk	Projects that promote agricultural activity on areas subject to extreme climatic events, such as flooding, drought, tropical storms or heat waves
	Projects where climate scenarios for the area foresee changes in temperature, rainfall or extreme weather that will adversely affect project impact, sustainability or cost over its lifetime;
	Projects that promote agricultural activity on marginal and/or highly degraded areas (such as on hillsides, deforested slopes or floodplains).
	Projects in areas in which rural development projects have experienced weather-related losses and damages in the past.
	Projects that establish infrastructure in areas with a track record of extreme weather events (e.g. water points in drought-prone areas)
Medium Risk	Projects that target groups entirely dependent on natural resources (such as seasonal crops, rainfed agricultural plots, that have been affected by in the last decade by climate trends or specific climatic events;
	Projects where climate variability is likely to affect agricultural productivity (crops, livestock and fisheries) access to markets and/or the associated incidence of pests and diseases for the project target groups;
	Projects investing in climate-sensitive livelihoods that are diversified;
	Projects investing in infrastructure that is exposed to infrequent extreme weather events;
	Projects investing in institutional development and capacity-building for rural institutions (such as farmer groups, cooperatives) in climatically heterogeneous areas;
	Projects that have the potential to become more resilient through the adoption of green technologies at a reasonable cost;
	Projects with opportunities to strengthen indigenous climate risk management capabilities;
	Projects with opportunities to integrate climate resilience aspects through policy dialogue to improve agricultural sector strategies and policies;
	Projects with potential to integrate climate resilience measures without extensive additional costs (e.g. Improved building codes, capacity-building, or including climate risk issues in policy processes);
	Projects that would benefit from a more thorough climate risk and vulnerability analysis to identify the most vulnerable rural populations, improve targeting, and identify additional complementary investment actions to manage climate risks.
Low Risk	Projects that are not likely to be vulnerable to climate risks and thus voluntary measures could be incorporated into the detailed design and implementation phases based on the SECAP project assessment recommendations. These projects generally focus on investments which do not have a direct physical or geographical interface with climate hazards (such as the development of a micro-finance institution).

Source: IFAD (2017), SECAP

According to SECAP's climate risk classification guidelines as described in the table above, RK-FINFA is classified "moderate" given that the target end beneficiaries, their livelihoods and the economic activities are exposed to climate-related risks such as floods, droughts and incidence of pests and diseases. These climatic events have already adversely impacted agricultural productivity for smallholders and profitability of agribusinesses, and thus climate change projections should be taken into account in the due diligence for medium and long-term investments. Some Project counties are exposed to extreme weather events, mainly frequent and prolonged dry spells as well as drought. Droughts in Project counties that are ASAL counties, namely: Nakuru, Tharaka Nithi, Meru, Embu, Machakos and Nyeri have continued to affect agriculture and livestock productivity. Therefore, as per SECAP requirements, a basic Climate Risk Analysis (CRA) will be required.

3.3 Climate Risk Analysis

3.3.1 Overview

Kenya's geography is dominated by arid and semi-arid plains, with a temperate highland plateau (reaching over 5,000 m) in the center, and a hotter, wetter climate along the coast and the shores of Lake Victoria. Two-thirds of the country receive less than 500 mm of rainfall per year; coastal and highland areas receive annual averages upwards of 1,100 mm and 2,000 mm, respectively. Kenya has two rainy seasons: "long rains" from March to June (about 70 percent of total annual rainfall); and "short rains" from October to December. In the west and along the coast, additional significant rainfall occurs outside of these two rainy seasons. Temperatures range from an average of 18°C in high elevation areas like Nairobi to 26°C in coastal areas such as Mombasa. Located on the equator, Kenya experiences little seasonal temperature variation.

Kenya is highly exposed to many natural hazards, the most common being floods and droughts. It is estimated that over 70% of natural disasters in Kenya are attributable to extreme climatic events. Typically, major droughts occur approximately every ten years, and moderate droughts or floods every three to four years. Repeating patterns of floods and droughts in the country have had large socio-economic impacts and high economic costs. For example, the 1998 to 2000 drought cost an estimated $2.8 billion, principally due to crops and livestock loss, as well as forest fires, damage to fisheries, reduced hydropower generation, reduced industrial production and reduced water supplies. Droughts have affected more people and had the greatest economic impact (8% of GDP every five years). As many as 28 droughts have been recorded in the past 100 years, and these appear to be increasing in frequency. Droughts are often nation-wide, but normally have the most severe impacts in the country's highly arid zones. Drought also remains a significant concern to Kenya's agricultural sector. Arid and semi-arid areas comprise 18 or the 20 poorest counties and are particularly at risk from increased aridity and periods of drought. While drought affect the most people, floods have caused the greatest losses in terms of human lives. Baringo, West Pokot, Kisumu and Laikipia are some of the country's most disaster-prone areas and have required significant disaster risk investment. Vulnerability from these hazards poses major challenges for economic stability and fiscal sustainability and have had adverse social and fiscal consequences. Indeed, lower-income populations reside in more hazard prone locations, with high potential for significantly increased exposure of already vulnerable populations.

The Climate Risk and Vulnerability Analysis undertaken for IFAD's Kenya Livestock Commercialisation Project (KeLCoP) provides projections for some of the RK-FINFA counties[1]. The ASAL counties (parts of Tharaka Nithi, Embu, Meru and Machakos) are highly vulnerable to extreme weather events, particularly drought, which continue to affect livestock productivity and pastoralists livelihoods. Records indicate that temperatures have since 1981 increased moderately (0.25-0.5°C), whereas rainfall has decreased over the same period (CCAFS 2015). The combination of the moderate increase in temperature and rainfall decrease has resulted into reduced length of the rainy seasons and increase in heat stress days and drought occurrence. Drought frequencies have increased from every 10 years to every 1-3 years. Prolonged droughts are understood to have contributed to the long-term environmental changes such as deforestation, drying

[1] Kachulu, Mutisungilire and Florent Baarsch (May 2020); Climate Risk and Vulnerability Analysis Report: Study undertaken in support of the Kenya Livestock Commercialisation Project (KeLCoP).

up of rivers and shallow wells, land degradation and amplified wildlife-human conflicts. The climatic changes have also lead to emergence or re-emergence of pestilence (locust swarms and fall army worm) as well as climate-related diseases, in particular, the vector borne diseases such as the Rift Valley Fever or anthrax, which re-emerges, periodically in ASAL areas after occasional heavy rains and flooding. The western counties of Trans Nzoia, Kakamega, Bungoma, Siaya and Busia are relatively cooler, wetter and the mean annual temperatures are lower compared to the ASALs. In these counties, over the years, farmers have also noted changing seasonality, i.e. delayed onset of rains, unreliability and variability of rains, reduced or increased amounts of rainfall and higher temperatures during the dry season. For instance, in Siaya, the temperature has increased by 0.5°C since 1981 while precipitation has increased by 15-25% during the same period[2] (CCAFS 2015). In Busia, historical data shows that drought frequency has increased from every 10 years to every 2-5 years and the flood prone areas of Budalangi have increased in floods and moist stress (CCAFS 2015). In Kakamega, temperature increase has resulted into heat stress and droughts. In Nakuru high moisture stress averaging 50 days per year of intense rains resulting into floods and livelihood losses have been recorded over the last decade. For instance, in 2013, floods in Nakuru destroyed over 200 homes and hundreds of crop hectarage.

3.3.2 Value Chain related Vulnerabilities and Risks

The table below summarises the trends and likely changes that would occur up to mid-century in some of the RK-FINFA counties.

Table 3-2 Likely Changes in Temperature and Precipitation in Selected RK-FINFA Counties

RK-FINFA County	Likely Changes
Meru	Increase in temperature and rainfall variability altering the slope and bedrock stability in some areas
Nakuru	Mean temperatures are projected to increase by 0.3ºc, with the first agricultural season projected to experience even greater changes. Precipitation is projected to increase by 0.3% and 6% in the first and second wet season respectively
Nandi	Dry spells and mean temperatures have been increasing gradually. These trends will continue in the future and therefore affect agricultural productivity
Nyeri	Increase in temperature and rainfall variability. The wildfires are expected to increase and be more severe
Siaya	Increase in intense precipitation with flooding more likely to occur. Wildfires are also expected to increase both in frequency and intensity due to increase in temperature and rainfall variability
Tharaka Nithi	Mean temperatures have increased by approximately 0.6°C and resulted in a moderate increase in heat stress days in the first and second agricultural seasons. Severe and mild droughts have been experienced leading to poor crop yields and low livestock production
Trans Nzoia	The county has experienced changes in rainfall patterns, which are expected to be more intense in the future. These changes result in reduced soil fertility and poor soil structure while higher temperatures and atmospheric humidity favours development of crop pests and diseases

Source: IFAD RK-FINFA SECAP Review Note (May 2021)

[2] CCAFS (2015). Kenya county climate risk profiles. Climate Change, Agriculture and Food Security. URL: https://ccafs.cgiar.org/publications/kenya-county-climate-risk-profiles

4 Environmental, Social and Climate Change Management

The Environmental, Social and Climate Change (ESC) management for RK-FINFA will follow the national guidelines and processes, as well as IFAD's safeguard requirements as elaborated in IFAD's Social, Environmental and Climate Change Procedures (SECAP, 2017)[3]. This document provides guidance for the development of environmental and social management systems for RK-FINFA PFIs.

4.1 RK-FINFA Implementation and Coordination for ESC Management

The institutional arrangements for RK-FINFA implementation as presented in the PDR, which give an overview of the roles of the PSC, PMU. The PMU be staffed with an Environmental and Climate Change Officer (ECCO) and a Social Inclusion Officer (SIO), both of who will be directly responsible for overseeing both the environmental, social and climate related aspects, and for supporting the development and implementation of the PFI ESMSs. (Terms of Reference for the ECCO and SIO are provided in the PIM).

At the county level, PMUs of ongoing IFAD value chain projects and County Project Facilitation Teams (CPFTs) will be composed of subject matter specialists which will include County Environment Officers (CEnvOs), County Natural Resource Management Officers (CNRMOs) and County Social Services Officers (CSSOs) to support ESC management.

In addition, each PFI will appoint a dedicated person (or team) to address environmental, social and climate-related issues. For the purposes of this document, this person is referred to as the ESMS Responsible Officer (ERO).

4.2 Institutional, Policy, Legal and Framework For Environmental Management

The Government of Kenya (GoK) has put in place several policies, legislations and institutional frameworks to regulate and address environmental, climate change and social inclusion thematic areas. These are listed in the table below together with the key institutions tasked with the implementation of the legislative frameworks.

Table 4-1 Policy, Legislative and Institutional Framework

Thematic Area	Policies/Legislations/Guidelines/Strategies/ Action Plans	Key Institutions
Agriculture	Agriculture Sector Transformation and Growth Strategy (ASTGS 2019-2029); Agriculture Act (rev 2012); Crops Act (2013); Irrigation Act (2019); Crops (Nuts and Oil Crops) Regulations (2020); Crops (Food Crops) Regulations (2019); Pest Control Products Act Cap 346; Plant Protection Act Cap 324; Agriculture Produce Marketing Act (2017)	Ministry of Agriculture, Livestock and Fisheries, Pest Control Product Board
Livestock	Draft (reviewed) National Livestock Policy (2019); Kenya Veterinary policy (2015); Draft Livestock Breeding Bill (2015); Livestock identification and traceability system regulations (2019); Pest Control Products Act Cap 346; Kenya Meat Commission Act; Fertilizers and Animal Foodstuffs Act, Cap 345 (2012); Animal Health Bill (2019)	Ministry of Agriculture, Livestock and Fisheries, Pest Control Product Board

[3] IFAD (2017). Social, Environmental and Climate Change Procedures.

Thematic Area	Policies/Legislations/Guidelines/Strategies/ Action Plans	Key Institutions
Fisheries	National Oceans and Fisheries Policy (2008); Fisheries Act 2016; Fisheries Management and Development Bill (2019); National Aquaculture Policy (2011); National Aquaculture Development Plan (2010-2015)	Ministry of Agriculture, Livestock and Fisheries
Gender	Sessional Paper No. 2 of 2019 on National Policy on Gender and Development; Gender Strategic Plan (2018-2022); National Policy for the Eradication of Female Genital Mutilation in Kenya (2019); National Policy for Prevention and Response to Gender Based Violence (2014); Prohibition of FGM Act (2011)	National Gender and Equality Commission (NGEC), Women Enterprise Fund, Ministry of Labour, Social Security and Services, Ministry of Public Service, Gender and Youth Affairs, National Council for People with Disabilities, National Council for Children Services
Youth	Kenya Youth Policy (2006); Kenya Youth Agribusiness Strategy (2017-2021); Kenya Youth Development Policy (2018)	Youth Enterprise Development Fund in Kenya, Ministry of Labour, Social Security and Services, Ministry of Public Service, Gender and Youth Affairs
Nutrition	National Comprehensive School Health policy (2007); National Food and Nutrition Security Policy (2011); National School Health Strategy Implementation Plan (2011), National Nutrition Action Plan (2012); The Breast Milk Substitutes (Regulation and Control) Act Number 34 (2012); Kenya National Strategy for the Prevention and Control of Non-Communicable Diseases (2015-2020)	Ministry of Health, Ministry of Education, Ministry of Agriculture, Livestock and Fisheries
Climate Change	National Green Economy Strategy and Implementation Plan (2016-2030); National Climate Finance Policy (2016); Climate Change Act (2016); The National Climate Change Response Strategy (2010); Kenya Nationally Determined Contributions (2015); Meteorology Policy (2019); Climate Finance Bill, 2018; Green bonds Guidelines, 2019; National Climate Change Action Plan (NCCAP) 2018-2022; National Adaptation Plan (NAP 2015- 2030); Kenya Climate Smart Agriculture Strategy (2017-2026); Climate Risk Management Framework (2017); National Climate Change Policy (2018); Kenya Climate Smart Agriculture Implementation Framework (2018-2027)	National Treasury & Planning (Green Climate Fund), Ministry of Environment and Forestry, Ministry of Water & Sanitation and Irrigation, Ministry of Agriculture, Livestock and Fisheries; Kenya Meteorological Department, Water Resources Management Authority, National Disaster Management Authority
Environment and Natural Resources Management	The Environmental Management and Coordination Act 1999 and the amendment Act 2015; Wildlife Conservation and Management Act 2013; Forest Conservation and Management Act, 2016, Natural Resources Act, 2016; Water Act 2016; National Solid Waste Management Strategy, 2015; Forest Conservation and Management Act, 2016; Natural Resources (Benefit Sharing) Bill, 2018; Environmental Management and Coordination (Water Quality) Regulations (2006); Environmental Management and Coordination (Wetlands, River Banks, Lake Shores and Sea Shore Management) Regulations (2009); Irrigation Policy (2011); Water Act (CAP 372) No. 8 (2002) (Revised 2012, 2016); Land Act (2012); National Environment Policy, 2013, Constitution of Kenya, 2010, Lands Act, 2012; Kenya Grass Fires Act Cap 327	Ministry of Environment and Forestry, National Environment Management Authority, Kenya Forest Service, Ministry of Water & Sanitation and Irrigation, Water Resources Management Authority, National Environment Trust Fund, Kenya Water Towers Agency, Kenya Wildlife Services
Indigenous Peoples	Kenya Constitution, 2010, Bill of Rights; Kenya Community Land Act (2016); Kenya Agricultural and Livestock Research Act (2013); National Cohesion and Integration Act (2008)	Ministry of Sports, Culture and Arts

IFAD's Safeguard Policies

IFAD has developed safeguard policies to support the sustainable implementation of its activities and interventions in achieving its mandate to eradicate rural poverty and food insecurity. These include policies and strategies on: Improving Access to Land and Tenure Security; Disclosure of Documents; Environment and Natural Resources; Gender Equality and Women's Empowerment; Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse; Targeting; Climate Change Strategy; Social, Environment and Climate Assessment Procedures (SECAP) and Strategy and Action Plan on Environment and Climate Change. SECAP provides 14 Guidance Statements, namely: Biodiversity; Agrochemicals; Energy; Fisheries and Aquaculture; Forest Resources; Rangeland-based Livestock Production; Water; Dams, their Safety and SECAP; Physical Cultural Resources; Rural Roads; Development of Value Chains, Microenterprises and Small Enterprises; Rural Finance; Physical and Economic Resettlement; and Community Health. The key differences between Kenyan and IFAD policies and requirements are that the GoK policies do not specifically provide for climate risk categorisation, FPIC and livelihood restoration where physical and economic displacement may occur.

4.3 National Environmental Guidelines

4.3.1 The EIA Process

The National Environment Management Authority prepared the Environment Impact Assessment Guidelines and Administrative Procedures in November 2002 (referred to as the EIA Guidelines). The Guidelines describe procedural steps in EIA studies and Environmental Audits as well as the contents and format of the study reports to be submitted to NEMA, the EIA study review and decision-making process.

In 2019, the EIA process was revised. The Environmental (Impact Assessment and Audit) (Amendment) Regulations, 2019 (Legal Notice 32 dated 30th April 2019), now requires that every proponent undertaking a project specified in the Second Schedule of the Act as being a low risk project or a medium risk project, shall submit to the Authority a Summary Project Report (SPR) of the likely environmental and social effects of the project. After review, where the Authority considers that the proposed project may have a significant adverse environmental impact, it shall recommend that the proponent should prepare and submit a Comprehensive Project Report (CPR); or where the Authority considers that the proposed project is not likely to have any significant adverse environmental impact, it shall exempt the proponent from submitting a Comprehensive Project Report and issue the proponent with an approval to proceed with the project.

The Second Schedule of the Environmental Management and Coordination Act 1999 has also been amended by Legal Notice 31 dated 30th April 2019. This Schedule lists the following activities which may be relevant to RK-FINFA as low risk projects:

- Community water projects including boreholes, water pans, sand dams and sub-surface dams;
- Livestock holding grounds and cattle dips;
- Expansion or rehabilitation of markets;
- Local roads and facility access roads;
- Business premises including shops, stores, urban market sheds;
- Cottage industry, jua kali sector and garages;
- Small scale rehabilitation, maintenance and modernization of projects; and
- Standard warehouses not exceeding one thousand four hundred square meters.

Medium risk projects listed under the amended Second Schedule which could be relevant to RK-FINFA interventions are:

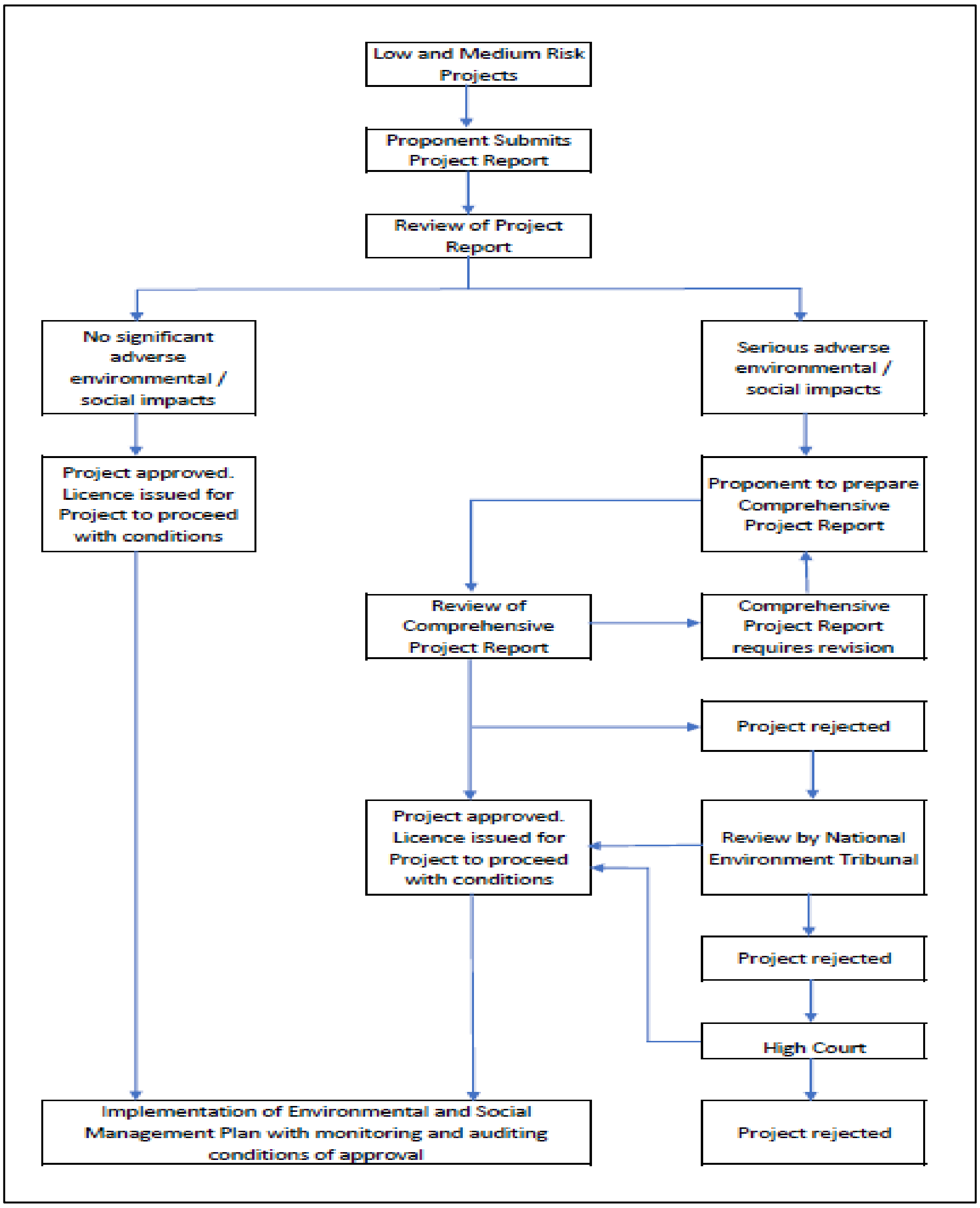
- Water resources and infrastructure, including drilling for purposes of utilizing ground water resources and related infrastructure;
- Medium-scale agriculture not exceeding one hundred hectares;
- Medium size grain storage;
- Medium size agricultural and livestock produce storage facilities;
- Medium scale irrigation projects.
- Medium scale abattoirs and meat-processing plants;
- Any other medium-scale food-processing plants or agro-based processing plants; and
- Go-downs for storage and warehouses.

The definition of "medium" is not provided.

High risk projects are required to undertake full environmental and social impact assessments. RK-FINFA interventions will not include high risk projects as described in Second Schedule, since these would capitulate the Project into IFAD's SECAP Category A.

The EIA Process is depicted in the figure below.

Table 4-2 The EIA Process in Kenya



Source: Adapted from NEMA, EIA Guidelines and Administrative Procedures (November 2002) an EMCA 2019 (LN31) and EIA EA Regulations 2019 (LN32)

4.3.2 Permitting and Licencing Requirements

There are a number of permits and licences that will be required for the implementation of RK-FINFA supported activities, depending on the type of activity. These may include, for example:

- Environmental Impact Assessment Licence;
- Water Abstraction Permit;
- Discharge Licence for Effluents, Emissions and Wastewater;
- Construction Permit;
- Certification of Registration of Work Place;
- Licence for Storage and Sale of Pest Control Products;
- Permit for Excavation of Borrow Pits.

4.3.3 Contractor's Contractual Obligations

Some of the activities supported through RK-FINFA may involve the construction of infrastructure (for example, markets, earth dams or water infrastructure). Contractors hired for these works will be required to familiarize themselves with national environmental and social policies, as well as IFAD's policies and safeguards. They will also be required to obtain all necessary national and local governmental permits and approvals as will be detailed in ESMPs which will form part of the Summary Project Reports (SPRs) and Comprehensive Project Reports (CPRs), for those activities where these are required. All works will be performed in accordance with current environmental practices, guidelines and standards in accordance with the documents cited above. In addition, they are required to abide by environmental and occupational health and safety provisions the Occupational Safety and Health Act (2007) and applicable Factories Act Rules which cover medical examinations noise prevention and control, fire risk reduction, among others.

The Contract Documents typically include aspects such as: worker health and safety (including the need for a Health & Safety Officer), visual intrusion, child labour, emergency response plans, environmental protection plan (covering solid waste, water pollution, dust/air pollution, workplace hygiene and sanitation, HIV/AIDS, gender, and traffic management. However, in order to ensure that environmental and social mitigation measures are actually implemented, all recommendations made in the ESMPs should be included as items in the Bills of Quantities.

Prior to mobilisation, the Contractor's Environment and Social Management Plan (CESMP) must be prepared presenting the environmental and social management measures identified as part of the SPRs and CPRs in order to provide practical guidance on meeting the additional contractual requirements for a specific subproject. The CESMP should integrate the environment and social management measures identified for offsetting, eliminating or reducing environment and social impacts into the implementation and operational stages of the subproject. It will demonstrate how the contractor will monitor and then manage those impacts including measures to be undertaken to offset / mitigate the impacts at specific locations and the time at which the measures will be implemented.

4.4 Screening for RK-FINFA-supported Projects

The purpose of screening is to provide an initial indication of the nature and complexities of a potential investment, after which it can be categorised to determine the level of investigation necessary to ensure that the project causes no harm to the environment or the project communities, and to ensure that the project is acceptable and sustainable in terms of environmental, social and climate change risks and impacts.

4.4.1 SECAP Screening Categorisation

According to SECAP Review Note, RK-FINFA has been categorised as Category B (medium risk). In other words, activities supported through RK-FINFA may have some adverse environmental and/or social impacts on human populations or environmentally significant areas, but the impacts are site-specific and few are irreversible in nature, and/or can be readily remedied by appropriate preventive actions and/or mitigation measures. High risk interventions will not be supported through RK-FINFA support.

The Second Schedule of the Environmental Management and Coordination Act 1999 has also been amended by Legal Notice 31 dated 30th April 2019. According to this, RK-FINFA interventions will fall into the low risk or medium risk categories as shown in Table 4-3 below.

Table 4-3 Risk Categorisation of RK-FINFA Projects

Low Risk Projects	Medium Risk Projects
Community water projects including boreholes, water pans, sand dams and sub-surface dams	Water resources and infrastructure, including drilling for purposes of utilizing ground water resources and related infrastructure
Livestock holding grounds and cattle dips	Medium-scale agriculture not exceeding one hundred hectares
Expansion or rehabilitation of markets	Medium size grain storage
Local roads and facility access roads	Medium size agricultural and livestock produce storage facilities
Business premises including shops, stores, urban market sheds	Medium scale irrigation projects
Cottage industry, jua kali sector and garages	Medium scale abattoirs and meat-processing plants
Small scale rehabilitation, maintenance and modernization of projects	Any other medium-scale food-processing plants or agro-based processing plants
Standard warehouses not exceeding one thousand four hundred square meters	Go-downs for storage and warehouses

Source: EMCA Amendment to the Second Schedule 2019 (LN 31)

4.4.2 Activities not supported by IFAD

There are a number of activities that IFAD will not support or implement, for which SECAP (2017) refers to the IFC exclusion list[4]. In the context of RK-FINFA, these are:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES. RK-FINFA will have to ensure beneficiary farmers use approved pesticides and herbicides. An indirect impact of RK-FINFA may result in an increase in poaching or killing of threatened or endangered species when wild animals disperse into improved rangelands, since some of the project activities may be proximate to national parks, wildlife conservancies and forests. RK-FINFA must therefore ensure that sufficient provision is made for the protection and conservation of wildlife, flora and their habitats;
- Production or activities involving harmful or exploitative forms of forced labour[5] and/or harmful child labour[6]. As such forced labour may not be an issue for RK-FINFA subprojects, but it should be noted that IFAD requires that farm hands/casual workers are paid decent living wages, and that labour and working conditions and well-being of workers and local communities are fully considered and in line with ILO conventions. In rural societies, children often skip school in order to assist their families on the farms. Children working on agricultural projects are especially susceptible to harm from poor use and management of agrochemicals. RK-FINFA supported subprojects will therefore have to ensure that animal husbandry activities do not interfere with children's education, and that children do not handle agrochemicals and are not otherwise exposed to these substances.

[4] International Finance Corporation Exclusion List: www.ifc.org/exclusionlist
[5] Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
[6] Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

SECAP (2017) also states that IFAD will not support "*projects in areas of critical habitats or which result in conversion or degradation of such habitats"*. Emphasis will be to identify alternatives and ensure that any potential degradation or conversion is firstly avoided, and if not avoided, appropriately mitigated.

In addition, in order to retain Category B status, RK-FINFA will <u>NOT</u> support subprojects or interventions that have the following implications:

Activities/interventions having ***locational implications*** which:

- Would develop wetlands;
- Cause significant adverse impacts to habitats and/or ecosystems and their services, such as conversion of natural forest or wildlands, loss of habitat, erosion or other form of land degradation, or fragmentation of habitats;
- Result in major hydrological changes;
- Are located in or within 5km of ecologically sensitive areas, areas of global/national significance for biodiversity conservation), and/or biodiversity-rich areas and habitats depended on by endangered species. These include protected areas such as national parks, wildlife conservancies and forests, world heritage sites (WHS) and water towers[7].
- Are located in areas subjected to major destruction as a result of geophysical hazards eg. landslides, earthquakes or volcanic eruptions.

Activities/interventions having ***natural resource implications*** that would:

- Lead to unsustainable natural resource management practices (fisheries, forestry, livestock) and/or result in exceeding carrying capacity;
- Would result in significant increase in the use of agrochemicals which may lead to life-threatening illness and long-term public health and safety concerns;
- Rely on water-based (groundwater and/or surface water) development where there is reason to believe that significant depletion and/or reduced flow has occurred from the effects of climate change or from overutilization;
- Pose a risk of introducing potentially invasive species or genetically modified organisms which might alter genetic traits of indigenous species or have an adverse effect on local biodiversity
- Is located in an area of socio-environmental conflict about water resources.
- Is located or has an impact on ecological sensitive areas.
- Project's location is significantly struck by the effects of climate change or natural hazards.

Activities/interventions involving ***infrastructure development*** that would:

- Require the need to rehabilitate or develop large scale irrigation schemes of more than 100 hectares per scheme;
- Involve significant extraction/diversion/containment of surface water, leaving the river flow below 20 per cent environmental flow plus downstream user requirement;
- Include drainage or permanent correction of natural waterbodies (eg. river training, wetland reclamation).

Activities/interventions having ***social implications*** that would result in:

- Any economic displacement or physical resettlement;

[7] Kenya has five major water towers, namely Mt Kenya, the Aberdare Mountain Range, the Mau Forest Complex, the Cherangani Hills and Mt Elgon – all of which are located within RK-FINFA's Project counties. In 2018, additional water towers were gazetted, namely: Mt Kulal, Hurii Hills and Mt Marsabit in Marsabit County; Karisia Hills and Mt Nyiro in Samburu County; Tugen Hills in Baringo County; and Subukia Escarpment in Nakuru County (a RK-FINFA project county); Kaptagat Hills in Elgeyo Marakwet County. Ref. https://watertowers.go.ke/wtowers/

- Significant social adverse impacts on disadvantaged, vulnerable, indigenous and underserved groups;
- Conversion and/or loss of physical cultural and traditional resources, including graves, indigenous tree/plant species that have traditional value.

All applications for loans made to RCGS PFIs and the GFF host institutions will undergo screening to ensure that they are not high risk projects and that they not are listed in the Exclusion List.

4.4.3 Activities Encouraged for Support through GFF

RK-FINFA through the GFF will intentionally encourage activities/interventions with a climate-smart slant. These could include, for example:

- Water efficient technologies eg. through drip irrigation/sprinkler or micro-jet systems);
- Flood protection measures (physical and biophysical);
- Climate resilient infrastructure;
- Climate smart agriculture, eg. employing no-tilling, terracing, drought or flood tolerant inputs, etc);
- Soil and water conservation measures;
- Renewable energy, eg solar pumps for farms, solar lighting for warehouses;
- Water harvesting/water storage systems eg. road, roof and rock runoff harvesting, spate harvesting;
- Agro-forestry and afforestation/reforestation;
- Post harvest handling technologies to reduce post-harvest food losses (eg. cooling facilities, warehouses)
- Cleaner transport solutions eg pooled transport modes for transporting agricultural produce, increased use of bicycles)
- Production of energy-saving stoves and biogas technologies to reduce firewood and fuel consumption.

Further additions for the taxonomy will be developed during the initial phases of project implementation.

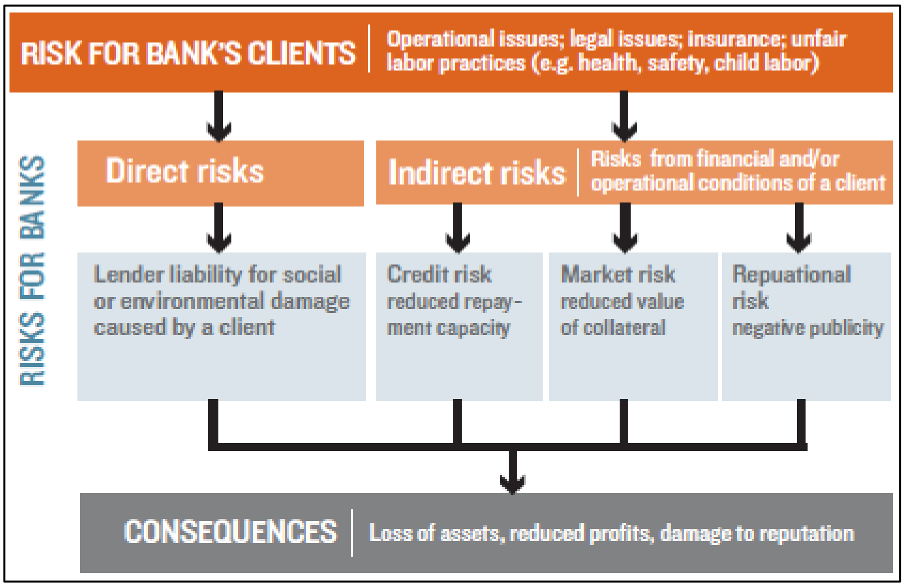
4.5 Environmental and Social Management System

4.5.1 Introduction

Effective management of environmental risks, impacts and opportunities contributes to financial institutions creating long-term value for their businesses. In order to manage both risks, impacts and opportunities strategically and comprehensively, it is necessary to establish an environmental and social management system (ESMS) which is a systematic approach to applying processes and procedures. The key to implementing an ESMS is continual improvement.

Typical risks experienced in the financial sector, and their consequences are illustrated in the figure below.

Table 4-4 Typical Risks experienced by Banks and Clients



Source: IFC (2007); Banking on Sustainability – Financing Environmental and Social Opportunities in Emerging Markets

Key environmental and social risk for financial institutions (commercial banks, MFBs and MSMEs) are reported as being[8]:

- Reputational risk/negative publicity with customers, shareholders and the general public;
- Credit risk (defaults, payments, rescheduling);
- Security (devalued collateral);
- Nonperforming loans, investments or leases;
- Loss of financing from international financial institutions;
- Liability for clean up of contaminated property or collateral;
- Reduced access to capital from private financial institutions/international bond markets;
- Potential civil or criminal liability for negligence;
- Loss of depositors or retail clients.

On the other hand, financial institutions' clients report that the main E&S issues they face are[9]:

- Disruption of operations, such loss in productivity due to climatic events (water stress, drought, floods, landslides), higher labour costs or high labour turnover;
- Environmental legal issues – noncompliance with environmental regulations and buyer requirements (for example for export-oriented crops);
- Health and safety of workers (eg. accidents on farms);
- Loss of market share because of environmental regulations (due to for example licencing and permitting requirements and associated costs);
- Market devaluation because of environmental or social liability;
- Loss of liability insurance coverage.

Environmental and social risk management improves the quality of a bank's portfolio and lowers insurance liabilities and compensation claims. Significant benefits from establishing and implementing an ESMS include:

- Systematic and consistent approach to environmental and social issues;

[8] IFC (2007); Banking on Sustainability – Financing Environmental and Social Opportunities in Emerging Markets
[9] IFC (2007)

- Easy integration into existing organization and management systems, leading to improved risk control;
- Better communications, resulting in improved public relations, greater stakeholder dialogue, and credible commitment toward staff and external stakeholders;
- Increased value to shareholders;
- Improved access to international capital markets and funding from multilateral institutions and development banks;
- Enhanced reputation and better brand value;
- Greater and higher long-term returns by financing more sustainable projects and businesses.

4.5.2 Elements of an ESMS

Various PFIs that were consulted during the preparation of the Environmental and Social Management Framework (ESMF) for RK-FINFA had different levels of ESG requirements in place and had some elements of an ESMS. But none had a fully fledged ESMS. Table 4-5 below provides guidance in regard to the key elements necessary to develop and implement an ESMS. However, it must be noted that while the banks and guarantor PFIs would be able to develop all these elements to produce a comprehensive ESMS, it is unlikely that smaller MFBs, rural Agri MSMEs and SACCOs would have the human and financial resources to do so, nor would it necessarily be appropriate for them to have such a detailed ESMS. The table therefore attempts to indicate the level of detail that would be appropriate for the various categories of PFIs.

For ease of reference to environmental, social and climate-related management, the various RK-FINFA PFIs have been assigned the following categories:

Tier 1 PFIs: Commercial banks, larger MFBs/guarantors (eg. AFC, KWFT)
Tier 2 PFIs: Mid-sized MFBs (eg. FAULU, SMEP, Rafiki) and larger SACCOs
Tier 3 PFIs: Agri MSMEs, small rural agriculture-based SACCOs

Smallholder individuals are not expected to develop any elements of an ESMS, but will be required to adhere by the national laws of the country in terms of environmental protection, labour, GBV/SEA, non-discrimination, etc.

In the table below, requirements are indicated as follows:

✓ Required as described
O Required to extent possible
✘ Not required

Table 4-5 Key Elements of an Environmental and Social Management System

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
1. POLICIES				
E&S Policy	Indicate types of activities financed by PFI (incl those financed through RK-FINFA)	✓	✓	✘
	Identify officer who has the specific responsibility to manage E&S and climate-related risks and to who s/he will report	✓	✓	✘
	Indicate compliance with national laws and international best practice.	✓	✓	✘

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
	Key items for E&S policy should be reflected in policy: ◦ Management of E&S and climate-related risks ◦ Resource efficiency and pollution prevention ◦ Community health safety and security ◦ Gender based violence and sexual exploitation and abuse ◦ Land acquisition ◦ Biodiversity ◦ Indigenous and vulnerable people ◦ Cultural heritage ◦ Climate change	✓	✓	✗
	Stipulate commitment to continual improvement (endorsed by top management)	✓	✓	✗
	Policy should be a public document and easily available upon request	✓	✓	✗
	One page policy, signed by CEO, to be prepared and displayed in all branches	✓	✓	✗
OHS Policy	Indicate types of activities financed by PFI (incl those financed through RK-FINFA)	✓	✓	✗
	Indicate who has the specific responsibility to manage OHS risk and to who s/he will report	✓	✓	✗
	Indicate compliance with national laws and international best practice	✓	✓	✗
	Key items for OHS policy should be reflected in policy: ◦ Management of OHS risks ◦ Labour and Working Conditions ◦ Community Health and Safety	✓	✓	✗
	Stipulate commitment to continual improvement (endorsed by top management)	✓	✓	✗
	Policy should be a public document and easily available upon request	✓	✓	✗
	One page policy, signed by CEO, to be prepared and displayed in all branches	✓	✓	✗
Governance Policy	Indicate types of activities financed by PFI’s (incl those financed through RK-FINFA)	✓	✓	✗
	Indicate who has the specific responsibility to manage governance risk and to who s/he will report	✓	✓	✗
	Indicate compliance with national laws and international best practice	✓	✓	✗

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
	Key items for Governance policy should be reflected in policy: ◦ Business Integrity ◦ Know Your Customer ◦ Anti-bribery & corruption ◦ Whistle blowing ◦ Zero tolerance for GBV/SEA ◦ Code of Conduct	✓	✓	O
	Stipulate commitment to continual improvement (endorsed by top management)	✓	✓	✗
	Policy should be a public document and easily available upon request	✓	✓	✗
	One page policy, signed by CEO, to be prepared and displayed in all branches	✓	✓	✗
2. ORGANISATIONAL CAPACITY AND COMPETENCY				
ESMS Focal Point	Assign one person to oversee ESMS development and implementation,and E&S and climate related performance	✓	✓	✓
Organisation Chart	Develop an organization chart indicating linkages and reporting lines between different departments within the PFI, eg. Board, Management, E&S Unit, Social performance unit, agricultural unit, Procurement Officer	✓	✓	O
	Include linkages with MFBs, SACCOs and MSMEs to be supported through RK-FINFA	✓	✓	✗
Capacity to implement ESMS	Carry out needs assessment to identify type of training and capacity building needed for each department in order to effectively implement the ESMS.	✓	✓	O
	Carry out training as identified	✓	✓	O
3. LEGAL FRAMEWORK				
Compliance with the Kenyan ESHS laws and regulations, IFAD's SECAP, other development partner standards (eg IFC) as well as with international conventions and treaties.	Prepare legal register indicating relevant national laws and regulations, international conventions / treaties, ESG requirements (incl. IFAD, development partner, international conventions such as ILO), as relevant to RK-FINCA supported operations	✓	✓	O
	Include licensing and permitting requirements	✓	✓	O
Compliance with the Exceptions list	Prepare Exclusion List listing types of interventions that will not be funded by the PFI	✓	✓	O
	Exclusion List to be aligned with IFAD's Exclusion List	✓	✓	✓

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
	Exclusion list to include high and substantial risk activities/projects as these cannot be considered by RK-FINFA to maintain IFAD category B, or that would necessitate expensive additional studies and mitigation actions such as RAPs, biodiversity assessments	✓	✓	✓
4. IDENTIFICATION OF RISKS AND IMPACTS				
ESC Screening	ESMS to identify generic risks and impacts associated with all types of potential interventions that may be financed by the PFI	✓	O	O
	Based on generic list of risks and impacts, develop screening checklist to identify E&S and climate-related risks and impacts of specific investments at PFI, SACCO and MSME levels	✓	✓	O
	Screening checklist to align with EP, IFC PS and IFAD SECAP standards. Risks to be assessed against key E&S criteria, namely: ◦ Labour and working conditions ◦ Resource efficiency and pollution prevention ◦ Community health safety and security ◦ Land acquisition ◦ Biodiversity ◦ Indigenous peoples ◦ Cultural heritage ◦ Climate change ◦ Legal compliance	✓	O	✗
	PFIs to develop checklists to assess capacity of on lendee MFBs, MSMEs and SACCOs to implement activities/investments and manage risks and impacts	✓	✓	✓
Categorisation of risk	ESMS to include guidance on categorization of activities/interventions to be financed (high, medium, low risk categories) (NB: Interventions that have high E&S and climate-related risks will not be supported under RK-FINFA)	✓	✓	✗
E&S and climate-related risks and impact assessment	ESIAs to be conducted/prepared by clients prior to lending, depending on nature and scale of activity/project to be funded, and in line with NEMA and IFAD guidelines	✓	✓	O
E&S and climate-related risk and impact management plans	Prepare generic risk and impact management plans to provide guidance on types of impacts and potential mitigation measures	✓	✓	O
	ESMPs to be prepared as part of ESIAs	✓	✓	O
5. SPECIFIC MANAGEMENT PLANS OR PROCEDURES				

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
Integrated Pest Management Plan	Prepare procedures for transport, storage, handling and application of agrochemicals	✓	✓	✓
Emergency Preparedness and Response	Procedures for responding to accidents and emergencies, including accident/incident reporting	✓	✓	✓
	Requirements for on-lendee PFIs and SACCOs to have EPR plans in place	✓	✓	✗
Labour Management	Develop Labour Management Procedure (LMP) specifying adherence to core ILO conventions (mainly to prohibit forced labour and child labour, freedom of association and fair wages)	✓	✓	O
	PFIs to ensure labour management procedures are implemented at on-lendee MFB, SACCOs and MSME level	✓	✓	O
Gender Based Violence and Sexual Exploitation and Abuse	Develop GBV/SEA prevention and mitigation procedures emphasising zero tolerance on all forms of GBV/SEA in line with national laws and IFAD GBV/SEA policy.	✓	✓	✓
	PFIs to ensure GBV/SEA prevention and mitigation procedures are applied at on-lendee MFB, SACCOs and MSME level	✓	✓	✓
6. STAKEHOLDER ENGAGEMENT				
Stakeholder Engagement Plan (SEP)	Prepare SEP which will identify key stakeholders, relevance to the PFI, prioritisation for engagement, establish frequency and channels of engagement and feedback	✓	✓	O
Communication Strategy	Elaborate on SEP to develop means of communication with and between PFIs, MFBs, SACCOs and MSMEs as relevant	✓	✓	O
7. FREE PRIOR AND INFORMED CONSENT				
FPIC	Prepare specific procedures describing approach to include vulnerable people (eg minority groups, indigenous groups, persons with disabilities) to benefit from RK-FINFA support to ensure equitable access by all to PFI’s products	✓	✓	O
	Stipulate percentage of target beneficiaries falling within this category	✓	✓	✓
	Monitor inclusion of vulnerable groups in on-lending activities	✓	✓	✓
8. GRIEVANCE MECHANISMS				
Grievance Redress Mechanisms	Grievance redress mechanisms to be set up at all levels: PFIs, MFBs SACCOs	✓	✓	✓
	PFIs to ensure that SACCOs/MFBs that they on lend to also have a GRM in place	✓	✓	✗

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
	GRM to indicate grievance registration procedures (incl. where and how to register grievance), responsibilities for action, timelines for communication and resolution, and avenues for escalation to higher levels if necessary	✓	✓	✓
Registration of Complaints/Grievances	PFIs to establish platform on their websites to enable lodging of complaints.	✓	✓	O
9. SECURITY				
Security Procedures	Procedures for security, including cyber security, personnel security	✓	✓	O
10. COVID-19 PANDEMIC				
COVID-19 Response	Develop procedures to prevent the spread of COVID and response to any positive cases	✓	✓	✓
	PFIs to ensure on-lendee MFBs, SACCOs and MSMEs follow COVID-19 protocols	✓	✓	✓
11. RECORD KEEPING				
Maintenance of Documentation	Ensure all records are maintained for the development of the ESMS, procedures and plans, consultations/ engagement, complaints/ grievances, etc	✓	✓	O
12. REPORTING				
Internal Reporting	Establish internal reporting system	✓	✓	O
	Submit quarterly reports on ESMS progress and E&S and climate-related performance to top management	✓	✓	O
	Inform all organisation's staff of ESMS requirements and E&S and climate-related performance (incl. actions required by staff where necessary)	✓	✓	✓
External Reporting	Reporting on E&S and climate-related performance to shareholders and clients	✓	O	O
13. DISCLOSURE				
Disclosure of Policies, Sustainability or E&S Reports, ESIA reports	Policies to be displayed at all offices and made available to public upon request	✓	✓	O
	Determine which other E&S and climate-related documentation can be made public, and whether at all times or only upon request	✓	✓	O
	Where ESIAs are required, SPR and CPR reports (as applicable) to be disclosed in accordance with NEMA EIA Regulations	✓	✓	✓
14. MONITORING AND REVIEW				

Elements of an ESMS	Guideline for Requirements	Tier 1 PFIs	Tier 2 PFIs	Tier 3 PFIs
Monitoring	E&S and climate-related performance to be monitored based on indicators developed for specific types of activities, their nature and size.	✓	✓	✗
	Establish procedures for monitoring on lending performance to assess in regard to E&S and climate-related performance	✓	✓	✓
	Where ESMPs have been prepared, also use these as a basis monitoring	✓	✓	O
	For on-lendees, specify who will monitor E&S and climate related performance (eg a consultant or by branch personnel) and how monitoring will be done (visits to clients, feedback online, etc)	✓	✓	O
	Set up feedback mechanism geared to improve processes/procedures (continual improvement)	✓	✓	✗
	Monitoring reports to be provided to top management quarterly	✓	✓	O
Review	Review of ESMS, procedures, etc, to include improvements from feedback, lessons learned	✓	✓	O
	ESMS document to be updated every 2 years at least.	✓	O	✗

4.6 Safeguard Documents

During the course of the implementation of the ESMS, it may be necessary for clients to develop certain safeguard documents depending on the nature and scale of the activity for which the loan is intended. These are described hereunder.

4.6.1 Environmental and Social Impact Assessment Studies

The National Environment Management Authority prepared the Environment Impact Assessment Guidelines and Administrative Procedures in November 2002 (referred to as the EIA Guidelines). The Guidelines describe procedural steps in EIA studies and Environmental Audits as well as the contents and format of the study reports to be submitted to NEMA, the EIA study review and decision-making process.

The revised Environmental (Impact Assessment and Audit) (Amendment) Regulations, 2019 (Legal Notice 32 dated 30th April 2019), now require that every proponent undertaking a project specified in the Second Schedule of the Act as being a low risk project or a medium risk project, shall submit to the Authority a Summary Project Report (SPR) of the likely environmental and social effects of the project. After review, where the Authority considers that the proposed project may have a significant adverse environmental impact, it shall recommend that the proponent should prepare and submit a Comprehensive Project Report (CPR); or where the Authority considers that the proposed project is not likely to have any significant adverse environmental impact, it shall exempt the proponent from submitting a Comprehensive Project Report and issue the proponent with an approval to proceed with the project.

Based on the screening process described above, all activities/interventions funded through RK-FINFA will fall under SECAP Category B, which, according to SECAP, would require ESMPs to be prepared. In terms of NEMA categorisation, the possible interventions will require either Summary Project Reports (SPRs) or Comprehensive Project Reports (CPRs). Where proposed activities or interventions may have some environmental and/or social impacts of concern which would require full ESIAs, these would be screened out during the screening process. In addition, if they involve activities listed in the exclusion list, then those interventions will also not be supported through RK-FINFA.

A Summary Project Report must specify:

(a) The nature of the project;
(b) The location of the project including:
   - Proof of land ownership, where applicable;
   - Any environmentally sensitive area to be affected;
   - Availability of supportive environmental management infrastructure; and
   - Conformity to land use plan or zonation plan;
(c) Potential environmental impacts of the project and the mitigation measures to be taken during and after implementation of the project, in the form of an environmental and social management plan.

A Comprehensive Project Report must specify:

(a) The nature of the project;
(b) The location of the project including:
   - Proof of land ownership;
   - The global positioning system coordinates; and
   - The physical area that may be affected by the project's activities;
(c) The activities that shall be undertaken during the project construction, operation and decommissioning phases;
(d) Description of the international, national and county environmental legislative and regulatory frameworks on the environment and socio-economic matters;
(e) The preliminary design of the project;
(f) The materials to be used, products and byproducts, including waste to be generated by the project and the methods of their disposal;
(g) The potential environmental impacts of the project and the mitigation measures to be taken during and after implementation of the project;
(h) An analysis of available alternatives including alternatives for the project site, design, technologies, and processes, and the reasons for preferring the proposed site, design, technologies and processes;
(i) An action plan for the prevention and management of possible accidents during the project cycle;
(j) A plan to ensure the health and safety of the workers and neighbouring communities;
(k) The economic and socio-cultural impacts to the local community and the nation in general; a plan to ensure the relocation or resettlement of persons affected by the project;
(l) A strategic communication plan to ensure inclusive participation during the study and provide a summary of issues discussed at the public participation forum;
(m) An environmental and social management plan;
(n) Integration of climate change vulnerability assessment, relevant adaptation and mitigation actions;
(o) The project cost; and
(p) Any other information the authority may require.

These reports will be prepared by a NEMA-registered practitioner.

4.6.2 Environmental and Social Management Plans (ESMPs)

ESMPs are to be prepared as part of the SPRs and CPRs (see above). Stakeholder concerns must be addressed in the ESMPs, and the project design should be presented to the communities.

While the actual implementation of ESMPs will be done by contractors, the communities or individual beneficiaries (depending on the type of project and the mitigation measures to be implemented), the PFIs in conjunction with CEnVOs or CNMROs will be responsible for ensuring that these are implemented and will carry out regular monitoring. However, supervision and monitoring of ESMP implementation will be done by the Environmental Representative at the PFIs, who will report performance to the ECCO at the PMU.

4.6.3 Climate Risk Analysis

The purpose of climate risk screening is to determine the exposure of a project intervention to climate-related risks (High, Moderate or Low) based on available information about historic climate hazard occurrences, current climate trends and future climate change scenarios, as well as to assess the likelihood of the Project increasing the vulnerability of the expected target populations to climate hazards. It provides an opportunity to integrate climate issues into project design and therefore increase project resilience and hence sustainability. The risk classification indicates that the Project has climate medium risk, and therefore a basic Climate Risk Analysis (CRA) for RK-FINFA is required, as presented in Chapter 8 of the ESMF.

Climate adaptation interventions will be promoted through the GFF, and will be supervised and monitored by the ECCO, with support from the NEMA Regional Officers.

4.6.4 Carbon Footprint

The total amount of greenhouse gases (GHGs) in terms of carbon equivalent (C-eq) emitted by the processes in the agricultural sector is regarded as the carbon footprint of agriculture. Various activities related to agriculture such as plowing, tilling, manuring, irrigation, cultivation of a variety of crops, rearing livestock emit a significant amount of GHGs that are categorized in three tiers of carbon footprinting. The energy input through machinery, electricity, livestock management, and fossil fuel constitutes a major proportion of carbon emissions through agriculture. Crop cultivation systems (mainly cereals) produces higher GHGs than other farming systems like vegetables and fruits. In addition, land use changes including conversion of natural ecosystems to agricultural fields, deforestation and crop residue burning after harvest contribute significantly to higher carbon emissions[10].

There are a number of tools that can be used to measure GHG emissions of agricultural practices. FAO has developed a manual that provides guidance for estimating carbon footprints from agricultural activites.[11]

4.6.5 Integrated Pest Management Plan (IPMP)

RK-FINFA will stimulate increased livestock productivity, and could therefore necessitate the increased use of agrochemicals. Agrochemicals (mainly pesticides) may be necessary to achieve higher production, but they must be carefully applied as they have various adverse environmental and social impacts related to contamination of water bodies and soil and thereby threatening biodiversity, risks to farmers and community health from exposure to agrochemicals, and releases of GHGs. In order to properly manage the use

[10] Jaiswal, B and M Agrawal (2020); Carbon Footprints of Agriculture Sector. In *Carbon Footprints: Case Studies from Building, Households and Agricultural Sectors* pp81-99 ed. Subramanian Senthilkannan Muthu

[11] FAO (2015); Estimating Greenhouse Gas Emissions in Agriculture: A Manual to Address Data Requirements for Developing Countries

of pesticides, Integrated Pest Management Plans (IPMPs) must be prepared by the Project PMU for application by the PFIs. Guidelines for the preparation of an IPMP are presented in Chapter 6.

The following main steps can be considered as typical for an IPM approach[12]:

- Prevention and/or suppression of harmful organisms. This is often best achieved by a combination of the following options:
  - where appropriate, use of pest resistant/tolerant cultivars and standard/certified seed and planting material;
  - balanced soil fertility and water management, making optimum use of organic matter;
  - prevent spreading of harmful organisms by field sanitation and hygiene measures (e.g., by removal of affected plants or plant parts, regular cleansing of machinery and equipment);
  - protection and enhancement of important beneficial organisms, e.g. by the utilisation of ecological infrastructures inside and outside production sites.
- Harmful organisms must be monitored with adequate methods and tools, where available. Such adequate tools should include observations in the field and where feasible warning, forecasting and early diagnosis systems (eg. traps).
- Based on the results of the monitoring it is decided whether and when to use what pest management inputs. Sustainable biological, physical and other non-chemical methods must be given priority over chemical methods if they provide satisfactory pest control.
- Pesticides should only be applied as a last resort when there are no adequate non-chemical alternatives and use of pesticides is economically justified.
- The pesticides applied shall be as specific as possible for the target and shall have the least side effects on human health, non-target organisms and the environment, while their use should be kept at minimum levels, e.g. by partial applications.
- Monitor the success of the applied pest management measures.

The IPMP should evaluate the impact of potential pests prior to Project implementation, identify the type of pests and assess the magnitude of impacts likely to be caused by those pests. In assessing the hazards of pesticide use, the toxicity of the pesticide and exposure to it are key elements. Therefore, as a minimum, the IPMP should:

- Screen the types of pesticides for toxicity by ensuring: they are effective against the target species, have negligible adverse impacts on human health and non-target species, will not precipitate resistance in pests, and do not fall into WHO class 1A or 1B;
- Aim to reduce exposure time or degree of exposure.
- Propose alternative non-pesticide management options (physical, mechanical and biochemical), as well as any available less toxic varieties of the pesticides.

The ECCO will prepare the IPMP as appropriate for RK-FINFA which will then be distributed to all the PFIs, who in turn will ensure that all activities involving the use of agrochemicals receive, understand and implement the IPMP. The IPMP must also stipulate national requirements, as well as approved and appropriate agrochemicals to be used in specific agricultural activities. In developing the IPMP, reference should be made to SECAP’s Guidance Statement #2 on Agrochemicals, and relevant IFC’s EHS Guidelines on crop and livestock production and agro-processing.

4.6.6 Standard Operating Procedures

Depending on the scale and complexity of the some of the interventions and subprojects supported through RK-FINFA, other operating procedures or plans may need to be developed, particularly if contractors are hired for specific construction works, to ensure

[12] http://www.fao.org/agriculture/crops/thematic-sitemap/theme/pests/ipm/more-ipm/en/

environmental protection, community and occupational health and safety and other risks and hazards. If necessary, these may include:

- Traffic Management Plan;
- Waste Management Plan;
- Health and Safety Management Plan;
- Pollution Contingency Plan;
- Erosion Management Plan;
- Cultural Heritage Management Plan.

These plans would be developed by the PFIs financing those interventions, consultants or contractors undertaking the works.

4.7 Stakeholder Engagement Plan

The following steps to develop a Stakeholder Engagement Plan (SEP) have been adapted from CDC's ESG Toolkit[13], and IFC's Stakeholder Engagement Handbook[14].

Development of SEPs will be the responsibility of the PFI EROs.

Key components of a SEP are described below:

4.7.1 Purpose and objectives of engagement

Stakeholder consultation is seen as a proactive approach to identify development pathways with local communities and build ownership on project initiatives. The overall purpose may include achieving and maintaining the social licence to operate and facilitating the successful setting and establishment of the activity/intervention. Specific objectives of an SEP may include ensuring inclusivity, prior and informed consultation with interested parties, timely disclosure of relevant information, and proactive engagement to anticipate and manage stakeholders' concerns and expectations.

4.7.2 Legal and regulatory framework

The regulatory framework should include national legal requirements as well as good international industry practice and guidance such IFAD's requirements for engagement and IFC Performance Standards.

IFAD-funded projects are people-centred and therefore the organisation stresses the need for stakeholder engagement, as is reflected in its various policy documents, including those on Improving Access to Land and Tenure Security (2008); Engagement with Indigenous Peoples (2009), Environment and Natural Resource Management (2011), and SECAP (2017).

In Kenya, citizens' right to full consultation, participation and expression of views with respect to policies and projects affecting their community are clearly stipulated in the Constitution of Kenya (2010). These are further amplified by the County Governments Act (2012) and the EIA Guidelines and Regulations which require consultations with key stakeholders at National, county and local level, as well as with the affected communities, and their participation, during the entire EIA process. The interested and affected groups should participate through consultations, and also provide inputs and comments throughout the ESIA process.

[13] https://toolkit.cdcgroup.com/esg-topics/external-stakeholder-engagement/

[14] IFC (2007); Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets

4.7.3 Description of PFI-financed Activities

Understanding the potential E&S and climate-related impacts that may be triggered by the activities/interventions to be financed is the first step towards identifying relevant stakeholders. Often this process can be originated by an ESIA, or may be determined through a less formal analysis early in the investment decision. The sooner impacts and influential stakeholders are identified and start to be engaged, the better placed the PFI is to manage stakeholder expectations.

4.7.4 Stakeholder Identification and Mapping

Priorities for engagement can be determined by understanding each stakeholder's influence and the impact of the PFI's operations on that individual/group. This is termed as 'stakeholder mapping'. Stakeholder impact is defined as the extent to which the interests of a stakeholder are affected by the company or project. Influence refers to the power that a stakeholder has over the PFI's operations (including its social licence to operate). Analysing stakeholders' influence and impact will allow prioritisation and strategic decisions about the engagement approach.

Steps for stakeholder identification and analysis are:

- Identify those stakeholders directly and indirectly affected by the project: how they will be affected and to what degree, and what influence they could have on the PFI or activities/interventions it will fund;
- Identify those whose "interests" determine them as stakeholders;
- Prioritize identified stakeholders. These are usually individuals and groups in the who are directly and adversely affected. Also consider engagement mandated by law or PFI's governing principles. Prioritize vulnerable groups and persons.
- Refer to past stakeholder information and consultation. Referring to historical stakeholder information related to an intervention or locality can save time and flag up risks, liabilities, or unresolved issues that can then be prioritized and managed);
- Verify stakeholder representatives (eg. elders, local leaders, women leaders, youth leaders, etc);
- Engage with stakeholders in their own communities to promote transparency and accountability;
- Include relevant government agencies as key stakeholders;
- Where necessary, work with representative and accountable NGOs and community-based organizations, particularly those who represent communities directly affected by PFI financed activities/interventions;
- Recognize employees as a good channel of communication.

4.7.5 Implementation of the SEP

The SEP should establish the objectives of engagement with different stakeholder groups (depending on the priority assigned) and which forms of engagement are most appropriate, and should define the tools, resources, effort and materials to be used. The approach to engagement will vary from information disclosure (what information will be disclosed, in what formats, and the types of methods that will be used to communicate this information to each of the stakeholder groups identified[15]) to in-depth engagement (one-to-one meetings, letters or calls which are two-way, relatively frequent and may seek approvals, deal with specific issues or concerns, or seek collaboration opportunities). The views of women, elderly, youth, PWDs and other vulnerable groups will be taken into account during this process.

A schedule should be prepared outlining dates and locations when various stakeholder engagement activities, including consultation, disclosure, and partnerships will take place and the date by which such activities will take place.

[15] Communication methods typically include mass media, national and local press or radio communications that are unidirectional and capable of reaching wider audiences

It should be noted that all other activities, from consultation and informed participation to negotiation and resolution of grievances, will be more constructive if stakeholders, including affected communities, have accurate and timely information about the project, its impacts, and any other aspects that may have an effect on them.

4.7.6 Roles and Responsibilities

An SEP should clearly define who in the institution will lead the engagement activities, who will record and keep track of activities, as well as grievances, and how feedback, concerns or issues raised will be dealt with or escalated. It also needs to describe governance and oversight mechanisms and indicate who from senior management/board has ultimate responsibility for delivering effective stakeholder engagement.

4.7.7 Grievance Management

Having a good overall stakeholder engagement process in place and providing access to information on a regular basis can help to prevent grievances from arising in the first place, or from escalating to a level that can potentially undermine the PFI's reputation and performance. From a risk-management perspective, PFIs can benefit from understanding stakeholder grievances and addressing them in a timely manner. During stakeholder consultations, stakeholders should be informed of process available to them for grievance reporting, consideration and redress.

4.7.8 Monitoring and Reporting

Engagement activities, concerns and stakeholder perceptions should be monitored and acted on. Outcomes of engagement activities and grievance management should be part of annual monitoring reports prepared by the PFI. PFIs should seek continuous improvement in stakeholder perceptions of the PFI and on how grievances are managed, for example, by aiming at reducing the time taken to address grievances. Information and feedback received from engagement activities can be a useful source of information for identifying community investment opportunities or opportunities for shared value.

4.8 Grievance Redress Mechanisms

4.8.1 Purpose of the GRM

In order to receive and facilitate the resolution of affected peoples' concerns, complaints, and grievances about the project's social and environmental performance a Grievance Redress Mechanism (GRM) will be developed for RK-FINFA as well as at the PFI level.

The GRM will record and address any complaints that may arise during the implementation phase of the project and/or any future operational issues that have the potential to be designed out during the implementation phase. The GRM will be designed to address concerns and complaints promptly and transparently with no impacts (cost, discrimination) for any reports made by project affected people. The GRM works within existing legal and cultural frameworks, providing an additional opportunity to resolve grievances at the local and project level. In the interest of all parties concerned, the grievance redress mechanisms will be designed with the objective of solving disputes at the earliest possible time. The mechanism should implicitly discourage referring matters to the court system for resolution.

Complaints will be recorded on the Grievances Register that will be maintained by the relevant PFI, while the PMU will maintain a register of project-wide complaints. Ensuring the implementation of grievance mechanisms at PMU and PFI levels and recording all grievances will be the responsibility of the SIO in the PMU. A Grievance Redress Committee, comprising the SIO and ECCO in the PMU, a County level representative and a representative from the PFIs will investigate to check the validity and severity of the grievance and resolve it.

Complaints can also be submitted through IFAD's Complaints Procedure that allows individuals and communities to contact IFAD directly and file a complaint if they believe they are or might be adversely affected by an IFAD-funded project/programme not complying with IFAD's Social and Environmental Policies and mandatory aspects of SECAP.

4.8.2 Guiding Principles for RK-FINFA Grievance Mechanism

The GRM process is guided by the following principles:

- Fairness and equity – all the grievances shall be received, recorded and investigated equally and with fairness. There will be no bias, favours or special treatment accorded to anyone during the process;
- Functionality, Promptness and Speed – the process will be functional to address any issues raised, prompt and speedy to ensure that issues are resolved within the specified timelines;
- Definite and clear – the process will be clear and easily understood by all involved. The communities and project beneficiaries should be well informed and sensitized in the process so that they are at ease with it;
- Simplicity – the process will be simple and well understood by everyone, at each stage of grievance handling;
- Confidence in the process – the communities and project beneficiaries will be encouraged to develop confidence in the process, and to trust that their issues will be listened to and acted upon accordingly;
- Considerations on the effects of the decisions – those handling the grievances will give due considerations on the effects (either short or long term) of their decisions on the lives of the complainants and their families.

The Project GRM process will involve four main stages:

i. Receiving and recording the grievance;
ii. Investigation and site inspection;
iii. Response; and
iv. Monitoring and evaluation.

Each bank, MFB, SACCO and Agri MSME will be expected to develop, publicise and implement its GRM.

4.8.3 Grievance Monitoring and Reporting

The PMU Social Inclusion Officer will ensure that grievances are logged and reviewed on a regular basis (at least quarterly) to determine if the same or similar grievances are being recorded for one or more PFIs. Multiple grievances related to the same or similar issues is an indicator of a more systemic problem within the Project which needs to be mitigated through the development of Project controls or measures.

At the PFI level, the PFI EROs will be responsible for monitoring grievances and reporting status to their CEOs and to the PMU.

4.8.4 IFAD Complaints Procedure

A complaint relating to non-compliance with IFAD's Social and Environmental Policies and mandatory aspects of its SECAP can be submitted in any of the following ways:

- Download the complaints form (Word)
- Send an email to SECAPcomplaints@ifad.org

However, this is only encouraged if the complainant has already brought the matter to the attention of the PMU or the NT&P, or if the complainants feel they might be subject to retaliation if they went to NT&P directly.

4.9 Gender Based Violence and Sexual Exploitation and Abuse

4.9.1 GBV/SEA Risk Factors

Gender-based violence (GBV) and sexual exploitation and abuse (SEA) cuts across multiple spheres including individual, relationship, community, institutional and policy levels. While sexual violence can impact anyone, sexual violence is largely considered a gender-based violence, with women and girls made as primary targets. IFAD has no tolerance towards acts of sexual harassment or SEA and takes action to prevent sexual harassment and SEA from occurring in the first place and ensures a prompt and effective response to allegations[16].

RK-FINFA component interventions, depending on their scope, can exacerbate existing risks or can create new ones. Risk factors may include:

- Unequitable sharing of income between men and women after sale of agricultural produce, livestock, poultry or bees related products;
- Low employment rates of women;
- Limited land for agriculture and livestock rearing which may require hiring of land especially by the youth and women, often based on informal agreements.

All these can exacerbate already existing inequities between women, men, and youth.

4.9.2 GBV/SEA Risk Mitigation Measures

The prevention and mitigation of GBV/SEA requires interaction and collaboration between major actors within RK-FINFA. These may include:

i. Women and their children, as well as other vulnerable populations, in communities where RK-FINFA will be implemented;
ii. The communities including cultural, religious and informal structures who may play a protection role;
iii. PMU and PFIs who are responsible for following contractually mandated social and labour practices that prevent abuse and violence;
iv. Workers including extension officers who will need to abide by codes of work ethics or codes of conduct.

In the RK-FINFA context, SEA/GBV assumes a medium risk level, and therefore the project will deploy the following strategies:

- Social and economic inclusion of women and young women in the project to improve their livelihoods and reduce poverty which is a risk factor for GBV;
- Use of the GALS methodology to handle GBV/SEA and other gender and youth related inequalities at the household, livestock farmer group and community level;
- Sensitize communities especially the vulnerable populations on the laws and services that can protect them and provide redress in case of an incident;
- Require every RK-FINFA PFI to sensitise their workforce on GBV/SEA and sign a code of conduct;
- Awareness creation among PMU and implementing partners;
- Training the PMU team and PFIs on conflict sensitivity and the 'Do No Harm' Principle.

The PMU's Social Inclusion Officer will be responsible for ensuring that all RK-FINFA PMU personnel as well as those in PFIs abide by IFAD's requirements on GBV/SEA. SIO will work with CSSOs and/or County Gender Officers as well as service providers for survivors of SEA/GBV to offer a minimum basic package of services, ideally including case

[16] IFAD (2018); IFAD Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse.

management support, health services, psychosocial support, shelter—if needed— security and access to legal services.

4.10 Disclosure of Safeguard Documents

Where CPRs and PRs are to be prepared, consultations must be held with all levels: at community, village, county and national levels. During these consultations, the processes for disclosure of the documents should be communicated. IFAD's SECAP procedures also require that sufficient consultations have been carried out with key stakeholders in order to satisfy its requirements for Free Prior and Informed Consent (FPIC).

Prior to approval of the activities/interventions to be funded, the CPRs /PRs will be disclosed nationally in line with NEMA's EIA Regulations, and in the Project counties at a location accessible to the general public, and in a form and language that the communities are able to understand, so that they may comment on any aspects/issues contained in the reports prior to their approval. PFIs financing the interventions and their clients will be responsible for disclosure.

4.11 Review and Approval of ESIAs, Project Reports and IPMP

CPRs and PRs will be reviewed by the PFI's officer responsible for the ESMS. The PMU ECCO and SIO may also be required to review these documents prior to submission to NEMA, depending on the nature and scale of the intervention.

The RK-FINFA IPMP will be reviewed by IFAD and approved by MALF.

4.12 Monitoring

Monitoring requires that:

- ESMSs have been developed as stipulated;
- The various safeguards instruments (CPRs and PRs which will include ESMPs) have been prepared to the required standard, within the required timelines;
- The safeguards instruments have been reviewed and approved by the responsible entities;
- Environmental, social and climate mitigation measures, have been/are being implemented and that mitigation measures are effective. This includes monitoring the implementation of the ESMPs and IPMP, and also the grievance redress mechanism(s);
- The community is participating in all stages of the environmental and social management and monitoring processes;
- PMU and PFI staff have been trained in accordance with the capacity building proposals;
- Reports are prepared and delivered as required.

Monitoring at RK-FINFA level will be done primarily by the ECCO, supported by the SIO, CEnvOs, CNRMOs, CSSOs and where necessary other technical officers. At the PFI level, monitoring will be done by the PFI EROs.

Examples of typical monitoring parameters and indicators are shown in Table 4-6 below:

Table 4-6 Examples of Monitoring Indicators

Monitoring Parameter	Monitoring Activity/Indicators	Target	Responsibility for Monitoring
ESMS	# of PFIs that have developed and are implementing ESMS	100% Tier 1 PFIs are implementing ESMSs	ECCO, supported by SIO
Screening	% of proposed interventions screened	100% proposed interventions screened	ECCO, PFI ERO
Licences and permits	% of required permits obtained	100% of required permits obtained	ECCO, PFI ERO
NEMA Approvals received for ESIAs	% of CPRs, PRs approved	100% ESIAs, Project Reports approved	ECCO, PFI ERO
Stakeholder engagement plan	No. of SEPs prepared	100% Tier 1 and 2 PFIs have developed and are implementing SEPs	SIO, PFI ERO
Grievance Redress	No. of PFIs having functioning grievance redress committees	All PFIs have functioning grievance redress committees	SIO, ECCO, PFI ERO
	No. of grievances received	100% of grievances resolved	
Reporting	No. of quarterly reports submitted to PMU per year by each PFI	4 reports received	ECCO

4.13 Quarterly and Annual Reviews

Quarterly and annual reviews will be undertaken by the PMU ECCO and SIO. These reviews are necessary to:

- Ensure that PFIs are complying with the processes established in the ESMF;
- Identify challenges and opportunities in order to learn lessons and thereby improve Project performance; and
- Be able to determine the cumulative impacts of the Project to establish attainment of the Project Development Objectives.

The reviews will produce Quarterly and Annual Review Reports.

Each year, workshops will be held where environmental, climate change and social performance of the Project will be reviewed and discussed, and recommendations made for improved Project performance. These workshops will be attended by the ECCO, SIO, County officers, NEMA Regional Officers and PFI officers responsible for the implementation of the ESMSs.

The Quarterly and Annual Review reports will be presented to the PSC in order to ensure that the Project is achieving its overall development objectives. IFAD will participate in these presentations.

4.14 Reporting

The PFIs will submit quarterly reports on environmental, social and climate-related issues to the PMU (ECCO).

The ECCO will produce quarterly and annual environmental, social and climate performance reports, which the PMU Project Coordinator will review and then submit to the PSC and IFAD.

4.15 Environmental and Social Auditing

Where ESIAs have been prepared for given activities/interventions financed by PFIs, annual environmental and social auditing will be carried out to establish the level of compliance with national policy objectives and regulatory requirements and whether NEMA's conditions of approval attached to the CPRs and PRs are being implemented satisfactorily. The PFIs will be responsible for ensuring that these audits are carried out. The audits will be carried out by independent NEMA-registered practitioners. ECCOs will also ensure that PFIs carry out audits for specified projects.

Auditing of the ESMS is to be done internally every year as part of the ESMS review process, and may involve the PFI internal auditors where present. This will be done by the PFI EROs, with support from the ECCO. Audit reports will be sent to the PSC and IFAD.

5 Capacity Building

5.1 Existing Capacity

Based on discussions held during the consultations with selected PFIs, it was established that for the most part these PFIs (Tier 1 and some Tier 2) have in place several ESG requirements that could feed into specific elements of an ESMS. Understandably, different aspects of ESG requirements are handled by different departments within the institutions, but none of the institutions had a dedicated person or team to deal with ESG requirements and ESC issues in a consolidated manner. However, not all PFIs will have formal (or informal) policies, procedures and processes or institutional set-ups that could support the development of an ESMS. Certainly, at the rural level, agri-MSMEs and SACCOs will have only a few, if any, of the prescribed policies and procedures.

During this preliminary ESMF, it was not possible to assess the capacity of county officers, particularly the CEnvOs, CNRMOs and CSSOs, to monitor ESC issues or support the development of ESMSs for rural MFIs. While knowledge on ESC issues no doubt exists within the project county offices, the county officers are unlikely to be familiar with ESG requirements for implementing and monitoring ESMSs. It is also possible that they would not have the (financial and logistical) resources to carry out regular monitoring. During the initial stages of Project implementation, consultations will be held at the counties to ascertain their capacities.

Clearly, therefore there is need to build capacity in ESG as well as to deal with ESC issues and challenges that the agricultural sector experiences.

5.2 Training Needs

5.2.1 Project Implementation

RK-FINFA Subcomponent 1.1 of the Technical Support and Innovation Services Component is focused on strengthening capacity of PFIs, MFBs, MSMEs and SACCOS, including implementing and monitoring of green investment portfolios and developing and implementing ESMSs for the 41 PFIs.

At the start of the Project, a capacity needs assessment will be carried out in order to:

- Identify the existing knowledge, skills and gaps in the area related to environmental and social compliance among the PSC, PMU staff, key PFI staff and other key Project implementation actors;
- Make recommendations for detailed capacity development required in order to ensure environmental and social compliance of RK-FINFA at all stages of its development and implementation;
- Make recommendations for detailed capacity building required by specific PFIs in order to ensure climate risk mitigation and emission reductions at all stages of the Project development and implementation;
- Prepare a detailed capacity building plan, training manuals (modules, visual aids, leaflets), training schedule and provide costs for these activities based on the identified capacity needs.
- Carry out the training programme by using the manuals developed.

In addition, Technical Assistance (in the form of a consultancy) will be hired to carry out training (particularly for the ECCO, SIO and CPFTs) and to support the PMU and PFIs to mainstream environmental, social and climate issues. The ECCO and

SIO will then roll out training to the Tier 3 MFIs, SACCOs and project beneficiaries.

5.2.2 Specific Capacity Building for Vulnerable Groups

Vulnerable groups, including marginalized groups and persons with disabilities, will be invited to participate in training and capacity building sessions, cognizant that these groups may have specific capacity building needs.

5.3 Preliminary Proposals for Training

Table 5-1 below summarises the types of training that could be included for capacity building covering topics and issues relevant to the ESMF, the development and implementation of the ESMF and SECAP requirements.

Table 5-1 Anticipated Training Topics

Capacity Building Topics	Target Audience	Training Methods
National environmental, social and climate policies, legislation and administrative frameworks, and requirements (including permitting and licencing)	RK-FINFA PMU, PFIs, CPFTs	Training workshops
IFAD's SECAP, Gender, Indigenous Peoples, FPIC, Climate, Land and Disclosure Policies	RK-FINFA PMU, PFIs, CPFTs	Training workshops
RK-FINFA environmental and social management system, incl. ESG policies, ESC management procedures and plans; institutional and organizational arrangements to implement the ESMS; legal compliance; safeguards requirements; ERP; reporting and monitoring and ESMS review.	RK-FINFA PMU, PFIs, CPFTs	Training workshops
RK-FINFA SEP, Grievance Redress Mechanism, GBV/SEA	RK-FINFA PMU, PFIs, CPFTs Project beneficiaries	Training workshops for PMU, Tier 1 & 2 PFIs Roll out training to Tier 3 PFIs and project beneficiaries
GALs Training	RK-FINFA PMU, PFIs, CPFTs Project beneficiaries	Training workshops for PMU, Tier 1 & 2 PFIs Roll out training to Tier 3 PFIs and project beneficiaries

6 Guidelines for the Preparation of an Integrated Pest Management Plan

These guidelines have been adapted from IFAD's Social Environmental and Climate Assessment Procedures (SECAP 2017) Guidance Statement #2 on Agrochemicals.

6.1 Introduction

The use of agrochemicals has been critical to agriculture. Agrochemicals include pesticides and chemicals used in animal husbandry such as antibiotics and hormones. "Pesticides" are chemicals that are used to kill or control pests. By their nature, pesticides are potentially toxic to other organisms, including humans, and need to be used safely and disposed of properly. Absence of safety precautions can result in accidents, sometimes with serious consequences. Those at greatest risk are those who experience the greatest exposure — these typically being smallholder farmers and livestock keepers, farm workers and their families. These groups are also often poor since bigger farms are more likely to provide training on pesticide risk avoidance to their workers. The unsafe use of agrochemicals also poses serious negative risk on the environment (soil, water, plant, wildlife, microorganisms, etc). In the Kenyan context, the proximity of agricultural activities using agrochemicals to sensitive ecological receptors such as protected areas, conservancies and other wildlife habitats raises concern in regard to the impacts these chemicals may have on those receptors.

Where there is a significant increase in the use of agrochemicals, IFAD requires a pest management or mitigation plan to be prepared. RK-FINFA will promote the use of agrochemicals as the Project will increase the availability of short-term credit for purchase of agrochemicals, which result increased use of agrochemicals. IFAD emphasises the need for careful selection of the type of agrochemicals and management and use (timing, dosage, mode of application, etc.) to reduce to acceptable levels the environmental risks they pose while providing the needed benefits for increased production with lower financial and health risk costs.

6.2 Policy and Regulatory Frameworks in Kenya Related to Pest Management

Institutional Framework

The main government organ responsible agriculture is the Ministry of Agriculture, Livestock, Fisheries and Irrigation. Other institutions and stakeholders involved in pest management and influence adoption of IPM programs include:

- Kenya Agriculture and Livestock Research Organisation (KALRO)
- Kenya Seed Company (KSC) Agricultural Development Corporation (ADC)
- Agricultural Finance Corporation (AFC)
- National Cereals and Produce Board (NCPB)
- New Kenya Cooperative Creameries (NKCC)
- Kenya Plant Health Inspectorate Service (KEPHIS)
- Pest Control Products Board (PCPB)
- National Environment Management Authority (NEMA)
- Agro Chemical Association of Kenya (AAK).

National Policies and Legislation

Policies and legislation related to the agriculture sector and implementation of the IPMP are presented below.

Table 6-1 Policies and Legislation related to IPM in the Agriculture Sector

Thematic Area	Policies/Legislations/Guidelines/Strategies/ Action Plans
Agriculture	Agriculture Sector Transformation and Growth Strategy (ASTGS 2019-2029); Agriculture Act (rev 2012); Crops Act (2013); Irrigation Act (2019); Crops (Nuts and Oil Crops) Regulations (2020); Crops (Food Crops) Regulations (2019); Pest Control Products Act Cap 346; Plant Protection Act Cap 324; Fertilizers and Animal Foodstuffs Act, Cap 345 (2012)
Livestock	Draft (reviewed) National Livestock Policy (2019); Kenya Veterinary policy (2015); Draft Livestock Breeding Bill (2015); Livestock identification and traceability system regulations (2019); Pest Control Products Act Cap 346; Kenya Meat Commission Act; Fertilizers and Animal Foodstuffs Act, Cap 345 (2012); Animal Health Bill (2019)
Fisheries	Fisheries Act 2016; Fisheries Management and Development Bill (2019); National Aquaculture Policy (2011); National Aquaculture Development Plan (2010-2015)
Environment and Natural Resources Management	The Environmental Management and Coordination Act 1999; Environmental Management and Coordination (Water Quality) Regulations (2006); Environmental Management and Coordination (Wetlands, River Banks, Lake Shores and Sea Shore Management) Regulations (2009); Irrigation Policy (2011); Water Act (CAP 372) No. 8 (2002) (Revised 2012, 2016)

International Conventions and Regional Agreements with implications on the Use of Agrochemicals

- Basel Convention,2006. The Basel Convention on the Control of Trans-Boundary Movements of Hazardous Wastes and Their Disposal was concluded in Basel, Switzerland, on March 22, 1989, and entered into force in May 1992. Now ratified by 149 countries including 32 of the 53 African countries, the focus of this convention is to control the movement of hazardous wastes, ensure their environmentally sound management and disposal, and prevent illegal waste trafficking (UNEP, 2006).
- Rotterdam Convention, 1999,aims to promote shared responsibility and cooperative efforts among Parties in the international trade of certain hazardous chemicals in order to protect human health and the environment from potential harm and to contribute to their environmentally sound use. Governments began to address the problem of toxic pesticides and other hazardous chemicals in the 1980s by establishing a voluntary Prior Informed Consent procedure (PIC). PIC required exporters trading in a list of hazardous substances to obtain the prior informed consent of importers before proceeding with the trade.
- The FAO International Code of Conduct on the Distribution and Use of Pesticides (2002). It establishes voluntary standards for public and private institutions involved in the distribution and use of pesticides. The Code sets out a vision of shared responsibility between the public and private sectors, especially the pesticide industry and government, to ensure that pesticides are used responsibly,

delivering benefits through adequate pest management without significant adverse effects on human health or the environment.

- FAO Guidelines on Good Practice for Ground Application of Pesticides, 2001. FAO produced a new, revised and expanded series of pesticide application equipment related guidelines to cover the application of pesticides.
- The Safety and Health in Agriculture Convention (ILO 184). This was adopted by the conference of the International Labour Organization (ILO) addresses the protection of workers in the agricultural sector. More people work in agriculture than in any other sector, more workers are injured in agriculture than in any other sector, and pesticides are a major cause of injury and death. In addition, more children work in agriculture than in any other sector and they are differently and particularly vulnerable to the toxic effects of chemicals such as pesticides. A specific section of the convention deals with the sound management of chemicals and advises governments to adopt good management practices for chemicals, to inform users adequately about the chemicals they use and to ensure that adequate mechanisms are in place to safely dispose of empty containers and waste chemicals.
- Strategic Approach to International Chemicals Management (SAICM). The Kenya-UNEP partnership for SAICM aims to serve as a catalyst for the implementation of activities that will facilitate the meeting of Kenya's Vision 2030 goals on chemicals and waste management. These activities will promote the meeting of Kenya's obligations as they relate to the Basel, Stockholm and Rotterdam Conventions, to which Kenya is Party. Special emphasis will be placed on engaging with industry and the private sector in manufacturing, use and disposal of chemicals.

6.3 Impacts of Agrochemicals

Several potential environmental and social consequences are associated with the use of agrochemicals:

- *Air pollution*: Pesticides can contribute to air pollution as pesticide drift occurs when pesticides suspended in the air as particles are carried by wind to other areas, potentially contaminating them. Ground spraying produces less pesticide drift.
- *Water pollution* from the use of agrochemicals may affect both groundwater and surface water through leaching and run-off. High concentrations of nitrates and phosphates can lead to eutrophication in rivers, lakes and coastal waters. High levels of nitrogen and phosphorus cause the depletion of oxygen in lakes and reservoirs by excessive algal and bacterial growth (eutrophication), eventually reducing aquatic life. The problem is aggravated by organic effluents, especially human sewage, and eutrophication in drinking water reservoirs is a public health concern. In addition, the toxic compounds contained in some pesticides may pollute groundwater and surface water, posing threats to both human and animal health, including marine and freshwater fish.
- *Hazards to humans and animals*: Improper application of pesticides, overuse and neglect of safety periods during and after application may result in unnecessary exposure of farmers and their families to toxic material. Contact can be direct (skin or eye) or through inhalation or ingestion. Agrochemical residues are also known to persist in contaminated clothing. Pesticides may move off target and poison fish, cattle, beneficial insects, pollinators, soil organisms and nearby communities. Pesticides may have acute or chronic toxic effects. While people are aware of their acute effects, which vary from mild irritation to death, their chronic toxicity results from the accumulation of small amounts of residue in consumed food – of both plant and animal origin – in the human body over a long period, leading to various toxicity symptoms and diseases.
- *Bioaccumulation* implies that toxic levels increase over time and along the food chain (e.g. in carnivorous mammals or predatory fish). The bioaccumulation of toxins resulting from agrochemical use is a very serious issue, causing biodiversity

loss and disease in both animals and humans, especially in poor rural communities that rely on wild food. Bioaccumulation is also very serious for the marine and freshwater life that is critical to a large proportion of the poor.

- *Pest resurgence*: Misuse of pesticides can cause elimination or suppression of the natural enemies that keep insect pest populations under control and at economically acceptable levels. This suppression leads to outbreaks of secondary pests previously not considered important. This can affect livestock and community health.
- *Pest resistance*: The misuse of pesticides can lead to the build-up of resistance in insect pests, pathogens and weeds. This resistance has great economic and ecological consequences because increasing amounts of more expensive and toxic pesticide formulations are required to achieve pest control. In some areas of the world, pesticide overuse has created a population of resistant pests, which threaten subsistence, livestock and human health.
- *Loss of bees and other beneficial insects*: Pesticides can kill bees and other beneficial insects that are essential for the pollination of indigenous plants, honey production, etc., thus causing negative impacts on the food production, livelihoods and incomes of poor rural communities.
- *Greenhouse Gases:* Agrochemicals are among the most important secondary sources of greenhouse gas (GHG) emissions in the agriculture sector.
- *Climate change* is expected to affect the population and life cycles of several pests and diseases, mainly through the influence on their distribution and expansion ranges. More invasions by introduced or migrated alien species of pests and diseases are expected, with higher intensities of infection. However, the impact of climate change will be most clear through its effect on crops, as crops growing under various types of climate stress will be more susceptible and vulnerable to pests and diseases. Anticipated effects include reduced tolerance and resistance levels in livestock, and losses in biodiversity. Because of higher pest and disease pressure, more pesticides will be applied, which might lead to increased misuse and overuse if not well managed. Environmental instability and increased incidence of extreme weather may also reduce the effectiveness of pesticides on target pests, or result in more injury to non-target organisms. However, climate change may affect biological control negatively or positively.

6.4 Potential Mitigation Measures

The use of agrochemicals can also be reduced or eliminated by promoting the use of locally available natural biopesticides; the use of natural on-farm animal and green manure; and organic farming techniques.

Some measures for management of pesticides are described here:

Pesticide management:

- The project should be explicit about the pesticides it proposes, including those that farmers are expected to use when credit for input purchases is made available. For projects that entail significant pesticide use or have the potential to result in increased pesticide use, a pesticide management plan is prepared, either as a stand-alone document or as part of the Environmental and Social Impact Assessment (ESIA) or ESMP. The most important criteria for assessing the environmental impact of a pesticide are its toxicity level and the degree of biodegradability. Consideration should also be given to residue-level guidance for countries that intend to export crops. Unregistered, restricted-use or experimental-use pesticides should be avoided, unless their use in the project has been reviewed and approved by the Food and Agriculture Organization of the United Nations (FAO)/World Health Organization (WHO) Joint Meeting on Pesticide Residues.

- Pesticides in WHO Class la and Class lb5 should generally be avoided.
- For general use, the formulated product should be at a low enough concentration to be in at most a WHO Class II. Low-toxicity formulations should be favoured: from least toxic to most toxic, the options are granule, dust, wettable powder, flowable, emulsifiable concentrate, ultra-low volume and fumigant.
- Low-concentration granulars, seed dressings, bait formulations and pheromone traps generally present the least hazard to users and are especially suitable for small-scale farmers unfamiliar with pesticide use; they cause minimal environmental contamination and minimal adverse effects on non-target organisms.
- Safe application equipment and servicing facilities should be promoted, along with correct calibration of equipment. Training should be provided for personnel and farmers applying the pesticides.
- Protective clothing, including masks, gloves and boots, should be provided or promoted, especially for pesticides that are absorbed through the skin. However, improper use of protective clothing may be even more hazardous than doing without protection: unless it is washed, protective clothing can become saturated with pesticides – such as in the lining of boots and gloves – and can greatly increase pesticide absorption. Training should be provided.
- Training is crucial to the safety, use and cost-effectiveness of pesticides, and is recommended for inclusion in any project that increases the availability or accessibility of pesticides. A range of actors will require education: users, operators, extension officers, retailers, health workers treating cases of poisoning, and legislators in pesticides law.
- Application guidelines for pesticide use should be made clear, and a legal document should be drawn up providing assurance that the guidelines will be followed.
- All the pesticides used in the project should be properly labelled, and all labels and application guidelines should be provided in the local language.
- Monitor water courses, soil and community health on a regular basis to ensure that pesticide concentrations are within legal environmental and health limits.

6.5 Integrated Pest Management Approach

An Integrated Pest Management Plan (IPMP) is a tool to prevent, evaluate and mitigate the occurrences of pesticides or pesticide breakdown products. The IPMP includes components promoting prevention and developing appropriate responses to the detection of pesticides or pesticide breakdown products, and provides responses to reduce or eliminate continued pesticide movement to groundwater and surface water. It encourages the use of a combination of pest management techniques, such as integrated pest management to suppress pest populations in an effective, economical and environmentally sound way, and minimize adverse effects on beneficial organisms, humans and the environment.

Whenever an IFAD project includes the purchase, promotion or use of agrochemicals, the following should be addressed:

- Identification of specific crops and livestock breeds and their existing or potential pests requiring pest management:
- Investigate the options for using available safe pesticides and non-pesticide alternatives such as natural deterrents.
- Identification of nationally approved and available pesticides, and management and application techniques for their judicial and effective use to protect human and environment health.
- Assessment of local and national capacity for the safe handling, use, storage, disposal and monitoring of agrochemicals: Identify training needs for regulatory

institutions, agro-dealers, extension agents and farmers, and assess the needs for building community environmental awareness.
- Development of an IPM programme for minimizing/optimizing pesticide application, including – if possible – provisions for monitoring residues in crops, livestock and in the environment. The programme should include IPM strategies for enhancing the resilience of vulnerable agroecosystems to climate variability and changes, and the adaption of IPM practices to deal with pests in different climatic conditions (World Bank, 2009).

Thus the key steps in developing an integrated pest management plan are:

i. Evaluate pests' impact before control programs are implemented, to identify pests, size of problems and possible natural controls. This includes describing:
    a. Common pest problems and estimated economic impact, current and proposed practices, including non-chemical preventative techniques, biological and chemical control. Is optimum use being made of agro-ecosystem management techniques to reduce pest pressure and of available non-chemical methods to control pests? Do farmers and extension staffs get sufficient information about IPM approaches that reduce reliance on chemical control?
    b. Relevant IPM experience within the project area, county or country, existing IPM practices, projects/programs, research
    c. Discrepancies where the current or proposed practices are not consistent with the principles of an IPM
    d. approach, to be able to propose a strategy to bring pest management activities into line with IPM.

ii. Evaluate non-pesticide management options, including a range of preventive measures and alternative pest control methods (physical, mechanical, and biochemical)

iii. Evaluate whether synthetic pesticides are necessary or not, whether less toxic varieties are available for the purpose, and how to minimize exposure for users and the environment

Note that risk is a function of both toxicity and exposure. Reducing risk means (1) selecting less toxic pesticides and (2) selecting pesticides that will lead to the least human exposure before, during and after use.

6.6 Pesticide Management

6.6.1 Screening Pesticides

The use of any pesticide should be based on an assessment of the nature and degree of associated risks, taking into account the intended users. With respect to the classification of pesticides and their specific formulations, reference is made to the World Health Organization's *Recommended Classification* of *Pesticides* by *Hazard and Guidelines to Classification.* The following criteria apply to the selection and use of pesticides:

a) They must have negligible adverse human health effects.
b) They must be shown to be effective against the target species.
c) They must have minimal effect on non-target species and the natural environment. The methods, timing, and frequency of pesticide application are aimed at minimizing damage to natural enemies. Pesticides used in public health programs must be demonstrably safe for inhabitants and domestic animals in the treated areas, as well as for personnel applying them.
d) Their use must take into account the need to prevent the development of resistance in pests.

e) They do not fall in WHO classes **IA** and IB, or formulations of products in Class II if (a) country lacks restrictions on their distribution and use; or (b) they are likely be used by, or be accessible to, lay personnel, farmers, or others without training, equipment, and facilities to handle, store, and apply these products properly.

6.6.2 Reduce exposure time or the degree of exposure

Before use

Transporting
- Separate pesticides from other materials being transported
- Avoid private distribution
- Never transport leaking or badly deteriorated containers
- Do not transport food, beverages or animal feed together with pesticides.
- Load and unload pesticides very carefully to minimize the chance of dropping containers.

Packaging
- Follow international and national norms and guidelines
- Use packaging adapted to needs eliminate re-use of packaging materials (even when cleaned, pesticide containers are too dangerous to re-use
- The container for the product shall be of sufficient strength and shall provide all the necessary
- Protection against compaction, atmospheric moisture, oxidation, loss by evaporation and
- Contamination to ensure that the product suffers no deterioration under normal conditions of transit and storage, etc.

Storing
- Develop strict guidelines for farm level storage
- Ensure permanent, well-marked labeling
- Follow and respect national norms
- Use appropriate language and approved pictograms
- Use and respect appropriate toxicology colour codes
- Should be located far from human dwellings, and personal use items
- Should be sited far from rivers and bodies of water, to prevent chemical contamination from entering and poisoning the water
- Should not be sited in an area subject to flooding, especially during seasonal rains
- Be secured from public access
- Have a warning sign affixed to the exterior door, entrance or gate of the storage facility
- Have a floor or base that is protected from pesticide absorption

Labeling
The purpose of a labeling is to convey a message about what the product is, who makes it and how it may be used safely and effectively. Label should specifically indicate:
- Hazard symbol
- Trade and chemical name
- Ingredient statement
- Type of formulation
- Net content of the package
- Purpose for which it is to be used
- Name and address of manufacturer, distributor
- Registration or license number
- Directions for use
- Safety precautions

- Warnings and statements of good practice
- Hazards to humans and domestic animals
- Environmental hazards
- Physical and chemical hazards
- First-aid instructions and advice to health personnel
- Storage and disposal directions
- Warranty statement

During use

- Continuous training for farmers on transporation, storage, application, protective equipment and clothing, mixing of chemicals, disposal of containers, disposal of expired agrochemicals, etc

Pre-application

- Read and understand labeled instructions and any other information provided with either the agrochemical, the application equipment or the protective clothing.
- Assess the risks of application to people, animals and the environment and decide what action is necessary to reduce or eliminate them.
- Ensure that the user is competent and that he or she has received effective training in application techniques and the precautions to be observed.
- Arrange health monitoring as may be necessary for certain hazardous agrochemicals based on their frequency of use.
- Check application equipment to ensure that it operates satisfactorily without leaking or spilling and is calibrated for the necessary application rates.
- Check that protective clothing and other safety equipment including breathing apparatus, if required, is complete, is of the correct quality and is in good condition. Replace any items that are worn or missing.
- Decide how the work is going to be done and set up an action plan to cover its implementation, together with any emergencies that may arise.
- Check that weather conditions are satisfactory, particularly to avoid excessive wind speeds and consequent spray drift.
- Ensure the safe disposal of empty containers, tank washings and surplus pesticides.

During application

- Do not apply agrochemicals without adequate training.
- Wear appropriate protective clothing as prescribed on the label or information sheet for handling concentrated products.
- Avoid blow-back from granule or powdered materials when transferring container contents into the application unit. A slow, steady release causes least disturbance of air and reduces the risk of particles becoming airborne and being inhaled.
- Mix only the correct amount of agrochemical required for a particular task so as to avoid the need to dispose of any surplus.
- Handle containers carefully to prevent gurgling or spillage during pouring into an applicator.
- Pour correctly from large containers with the spout uppermost so as to allow air to flow into the container at the same rate as the contents flow out.
- If two or more agrochemicals have to be mixed, ensure that they are compatible and without risk of a chemical reaction that would cause a "tank mix" operator hazard.
- Do not eat, drink or smoke while applying agrochemicals.
- Ensure that dangerous practices such as putting a blocked nozzle to the mouth to blow it clear are prohibited. Clean the nozzle with water or a soft probe, such as a grass stem.
- Do not allow other workers in the field, particularly when pesticides are being applied.
- Take particular care to observe that children are neither allowed to spray nor are exposed to pesticides.

- Take notice of changing weather conditions, such as an increase in wind speed. This would cause drift and could blow the spray towards sensitive areas such as a drinking water supply, resulting in health hazards. It may also blow the spray towards the operator, causing an inhalation hazard.

After use
Know, respect and enforce any exclusion period after application during which humans, livestock, pets and wildlife must be kept away from the treated area; assure proper cleaning and rinsing off; and develop a workable monitoring and evaluation system). The following precautions have to be followed after applying the pesticide:

- Thoroughly wash hands, face and neck as well as other parts of the body which may have become contaminated. If gloves have been worn, wash them before removal
- Return unused pesticide to safe storage and safely dispose of empty containers and any surplus in the application equipment
- Decontaminate application equipment by washing it thoroughly. The washings should be drained into a soak-away or similar chamber to be safely confined and without risk to the environment.
- Decontaminate protective clothing by thoroughly washing items such as apron, boots and face shield. Launder the work clothing each day after spraying. Gloves should be washed inside and out and allowed to dry. Respiratory protection equipment should be wiped clean
- Bathe or wash thoroughly again after completing the above four actions.

6.6.3 Disposal of unused and obsolete pesticide, and empty pesticide containers

The safe management and disposal of pesticide-related waste (*unused and obsolete pesticide, and empty pesticide container*) should be provided and coordinated by regulatory authorities, pesticide distributors and suppliers. Other organizations that support and advise pesticide users, such as extension and health promotion services, non-governmental organizations (NGOs), agricultural colleges and schools, also have important roles to play.

The Pesticide Control Products Board is responsible for regulating the manufacture, import, distribution and use of pesticides. These responsibilities should be extended to include the management of pesticide related waste products, including empty containers, which are often overlooked.

A mechanism has to be designed to collect all empty pesticide containers from farmers and safely disposed and never reused. It is extremely dangerous to use them for anything else. Consult the pesticide label, the manufacturer, or the manufacturer's representative for specific recommendations regarding container clean-up and disposal.

The management plan has to be prepared when there is the plan to use pesticide to mitigate all the impacts associated with the pesticide using the above-mentioned measures. The implementation of the plan has to be supervised, monitored and audited, and a monitoring plan has to be prepared.

6.6.4 IPMP Summary

The IPMP should include:

i. A description of present, proposed and/or envisaged pesticide use and assess whether such use is in line with IPM principles. Provide purpose of pesticide use, type of products used, frequency of applications, and application methods. Is pesticide use part of an IPM approach and is it justified? Justification of pesticide use under the project should (a) explain the IPM approach and the reason why pesticide use is considered, (b) provide an economic assessment demonstrating that the proposed pesticide use would increase farmers' net profits, or for public health projects, provide evidence that the proposed pesticide use is justified from the best available (probably WHO supported evidence) public health evidence.

ii. An indication of type and quantity of pesticides envisaged to be financed by the project (in volume and monetary value) and/or assessment of increase in pesticide use resulting from the project.

iii. Circumstances of pesticide use and the capability and competence of end-users to handle products within acceptable risk margins (e.g. user access to, and use of, protective gears and appropriate application equipment; users' product knowledge and understanding of hazards and risks; appropriateness of on-farm storage facilities for pesticide).

iv. An assessment of environmental, occupational and public health risks associated with the transport, storage, handling and use of the proposed products under local circumstances, and the disposal of empty containers.

v. Pre-requisites and/or measures required to reduce specific risks associated with envisaged pesticide use under the project (e.g.: protective gear, training, upgrading of storage facilities, etc.).

vi. A selection of pesticides authorized for use, taking into consideration: (a) criteria set at national (if there is any) or international, (b) the hazards and risks and; (c) the availability of newer or less hazardous products and techniques (e.g. bio-pesticides, traps).

vii. A description of activities that require local monitoring during implementation.

viii. A description of activities that require monitoring during supervision visits (e.g. regarding effectiveness of measures to mitigate risks; progress in strengthening regulatory framework and institutional capacity; identification of new issues or risks arising during implementation).

ix. Monitoring and supervision plan, implementation responsibilities, required expertise and budget.

7 Guidelines for the Preparation of an Indigenous Peoples Planning Framework

These guidelines for an Indigenous Peoples Plan Framework (IPPF) have been adapted from the IPPF prepared for IFAD's Kenya Livestock Commercialization Project (RK-FINFA). It complies with IFAD's Policy on Engagement with Indigenous Peoples[17] and the Green Climate Fund's Operational Guidelines for Indigenous Peoples Policy[18].

7.1 Overview

Kenya is home to Indigenous Peoples (IP) who are either hunter-gatherers or pastoralists. Some of the hunter-gatherers are transitioning to agro-pastoralism, others are nomadic or seminomadic pastoralists and other artisanal blacksmiths and fishing communities. It is estimated that pastoralists comprise 25% of the national population, while the largest individual hunter-gatherer community amounts to approximately 79,000. The pastoralists mainly occupy the arid and semi-arid lands of northern Kenya and towards the border between Kenya and Tanzania in the south. The hunter-gatherers include the Ogiek, Sengwer, Yiaku, Waata and Aweer (Boni), while the pastoralists include the Turkana, Rendille, Borana, Maasai, Samburu, Ilchamus, Somali, Gabra, Pokot, Endorois and others.[19]

Initial screening of the 14 Project counties indicates the presence of indigenous peoples. While detailed information on the extent of IP in the project's counties, as well as detailed information about their beliefs, traditions, benefits, involvement in the project activities, and impacts of the project on IP, among others, are limited at this stage, some general information is available about these groups. Nonetheless, it is highly likely that indigenous people will be present at some project sites and may be affected, or potentially benefit, from the project. Table 7-1 presents areas where Indigenous Peoples are present in the Project Counties.

Table 7-1 RK-FINFA Counties that host Indigenous Peoples

County	Indigenous hunter-gatherers, including small fishing and agricultural communities	Indigenous nomadic and semi-nomadic pastoralists and agro-pastoralists
Bungoma	None	Sabaot
Busia	None	None
Embu	None	None
Kakamega	None	None
Kirinyaga	None	None
Kisii	None	None
Machakos	None	None
Meru	None	None
Nakuru	Ogiek	Maasai
Nandi	None	None
Nyeri	None	None
Siaya	None	None

17 IFAD (2009); Engagement with Indigenous Peoples: Policy
18 Green Climate Fund (undated); Operational Guidelines: Indigenous Peoples Policy
19 https://www.iwgia.org/en/kenya

County	Indigenous hunter-gatherers, including small fishing and agricultural communities	Indigenous nomadic and semi-nomadic pastoralists and agro-pastoralists
Tharaka Nithi	None	None
Trans Nzoia	Sengwer	Sabaot

Source: Respective County Integrated Development Plans 2018-2022

This IPPF has been developed to guide development of Indigenous Peoples Plans which will mitigate adverse impacts on Indigenous Peoples.

7.2 Objective of the Indigenous Peoples Planning Framework

IFAD's Policy on Engagement with Indigenous Peoples aims to enhance IFAD's development effectiveness in its engagement with indigenous peoples' communities in rural areas. It sets out the principles of engagement to work with indigenous peoples, and the instruments, procedures and resources to be deployed to implement them.

Essentially, the framework will provide guidance on how the FPIC and the IPAPs will be developed and mainstreamed into Project activities. The IPPF will seek to provide guidance/processes and procedures to:

- Screen project components to assess their impacts on Indigenous Peoples;
- Ensure meaningful participation and consultation with affected persons in the process of preparation, implementation, and monitoring of project activities;
- Prepare an IPP to mitigate any adverse impacts found;
- Ensure that Indigenous Peoples receive culturally appropriate social and economic benefits;
- Define the institutional arrangement for screening, planning and implementation of Indigenous Peoples plans for projects; and,
- Outline the monitoring and evaluation process, including budgetary requirements.

7.3 Free Prior and Informed Consent

Given that indigenous peoples could potentially be present at Project sites, IFAD requires that the Project undertakes a process of Free Prior and Informed Consent (FPIC) leading to broad based community support and consent for the project as well as the development of Indigenous Peoples Action Plans.

The key elements of FPIC can be summarized as follows[20]:

- **Free** should imply no coercion, intimidation or manipulation;
- **Prior** should imply consent has been sought sufficiently in advance of any authorization or commencement of activities and respects time requirements of indigenous consultation/consensus processes;
- **Informed** should imply that information is provided that covers (at least) the following aspects:
    a) The nature, size, pace, reversibility and scope of any proposed project or activity;
    b) The reason/s or purpose of the project and/or activity;
    c) The duration of the above;
    d) The locality of areas that will be affected;

[20] UNDG Guidelines (excerpt from the Report of the International Workshop on Methodologies Regarding Free, Prior and Informed Consent E/C.19/2005/3, endorsed by UNPFII at its fourth session in 2005).

e) A preliminary assessment of the likely economic, social, cultural and environmental impact, including potential risks and fair and equitable benefit sharing in a context that respects the precautionary principle;
f) Personnel likely to be involved in the execution of the proposed project (including indigenous peoples, private sector staff, research institutions, government employees and others);
g) Procedures that the project may entail.

- **Consent**: Consultation and participation are crucial components of a consent process. Consultation should be undertaken in good faith. The parties should establish a dialogue allowing them to find appropriate solutions in an atmosphere of mutual respect in good faith, and full and equitable participation. Consultation requires time and an effective system for communicating among interest holders. Indigenous peoples should be able to participate through their own freely chosen representatives and customary or other institutions. The inclusion of a gender perspective and the participation of indigenous women are essential, as well as participation of children and youth as appropriate. This process may include the option of withholding consent. Consent to any agreement should be interpreted as indigenous peoples have reasonably understood it.

Free, prior and informed consent should be sought sufficiently in advance of commencement or authorization of activities, taking into account indigenous peoples' own decision-making processes, in phases of assessment, planning, implementation, monitoring, evaluation and closure of a project.

Indigenous peoples should specify which representative institutions are entitled to express consent on behalf of the affected peoples or communities. In free, prior and informed consent processes, indigenous peoples, United Nations agencies and governments should ensure a gender balance and take into account the views of children and youth as relevant.

Information should be accurate and provided in a form that is accessible and understandable, including in a language that the indigenous peoples will fully understand. The format in which information is distributed should take into account the oral traditions of indigenous peoples and their languages.

Reference should be made to IFAD's How to Do Note on FPIC[21] and IFAD's How To Do Note on Engaging with Pastoralists[22].

7.4 Policy And Legislative Framework on Indigenous Peoples

Indigenous Peoples have an inherent right to self-determination enshrined in different international jurisprudence. Indigenous Peoples also enjoy the right to maintain and develop their cultures, as well as the right over their lands, territories and resources.

Constitution of Kenya, 2010

Kenya's 2010 The Constitution of Kenya 2010 (CoK) provides a rich and complex array of civil and political rights, socio- economic rights and collective rights that are of relevance to indigenous communities. CoK does not specifically use the term IP, it is nevertheless robust in articles that define vulnerability and marginalization, including issues that IP cite as the reasons for their self-identification. It also addresses social exclusion in general. Article 260 of the Constitution defines a "marginalized community" as:

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[21] IFAD (2015); How to do: Seeking free, prior and informed consent in IFAD investment projects.
[22] IFAD (2018); How to do: Engaging with pastoralists – a holistic development approach

- A community that, because of its relatively small population or for any other reason, has been unable to fully participate in the integrated social and economic life of Kenya as a whole;
- A traditional community that, out of a need or desire to preserve its unique culture and identity from assimilation, has remained outside the integrated social and economic life of Kenya as a whole;
- An indigenous community that has retained and maintained a traditional lifestyle and livelihood based on a hunter or gatherer economy; or (d) pastoral persons and communities, whether they are (i) nomadic; or (ii) a settled community that, because of its relative geographic isolation, has experienced only marginal participation in the integrated social and economic life of Kenya as a whole.

Similarly, the COK (2010), defines 'marginalized group' as: a group of people who, because of laws or practices, on, or after the effective date, were or are disadvantaged by discrimination on one or more of the grounds in Article 27 (4) which prohibits discrimination on the basis of ethnic or social origin, religion, conscience, belief, culture, dress or language. In addition, article 27(6) calls on the state to undertake, 'legislative and other measures, including affirmative action programmes and policies designed to redress any disadvantage suffered by individuals or groups because of past discrimination'. This article prohibits both direct and indirect discrimination.

Articles 56 and 260 of the Constitution are a clear demonstration of the intentions of the country to deal with the concerns of minority and marginalized groups: The definition of marginalized communities and groups by the COK (2010), and the provisions for affirmative action programmes for minority and marginalized groups are efforts to provide a legal framework for the inclusion of minority and marginalized groups/ Indigenous Peoples into mainstream development of the country. These articles present the minority and marginalized groups including Indigenous Peoples.

The Constitution of Kenya requires the State to address the needs of vulnerable groups, including "minority or marginalized" and "particular ethnic, religious or cultural communities" (Article 21.3): The Specific provisions of the Constitution include: affirmative action programs and policies for minorities and marginalized groups (Articles 27.6 and 56); rights of "cultural or linguistic" communities to maintain their culture and language (Articles 7, 44.2 and 56); protection of community land, including land that is "lawfully held, managed or used by specific communities as community forests, grazing areas or shrines," and "ancestral lands and lands traditionally occupied by hunter-gatherer communities" (Article 63); promotion of representation in Parliament of "…(d) ethnic and other minorities; and (e) marginalized communities" (Article 100); and an equalization fund to provide basic services to marginalized areas (Article 204).

While important, constitutional provisions alone are not enough. They require a body of enabling laws, regulations and policies to guide and facilitate their effective implementation. In 2011, Kenya's parliament enacted 22 laws. In the main, these laws are of general application and will have a bearing on the way in which the state exercises power in various sectors, some of them of fundamental importance to indigenous communities.

Other National Policies and Laws

Kenya's legal and regulatory framework has inclusion of several provisions, policies and instruments that if well developed and implemented hold promise for addressing marginalization and inclusion of IP. These include:

The National Land Policy (NLP): The NLP was endorsed in 2009 while the Land Act, Land Registration Act and National Land Commission Act were adopted in May 2012. According to the policy, a Community Land Act has been enacted. The NLP includes a key policy principle for restitution of land rights of minority communities as a way of restoration and protection of land rights which were violated by colonial and post-colonial governments (articles 3.6.1.2 and 3.6.6 on restitution and land rights of minority communities respectively). The policy calls on the GoK to secure community land and to "document and map existing forms of communal tenure, whether customary or non-customary, in consultation with the affected groups, and incorporate them into broad principles that will facilitate the orderly evolution of community land law" (Article 3.3.1.2, paragraph 66).

The Forest Act of 2005 and Forest Policy of 2007 both provide some provisions for the customary rights of forest communities and community forestry: The Forest Act states, that "nothing in this Act shall be deemed to prevent any member of a forest community from using, subject to such conditions as may be prescribed, such forest produce as it has been the custom of that community to take from such forest otherwise than for the purpose of sale" (Article 22), and "…may include activities such as 'collection of forest produce for community based industries'' (Article 47.2.e) under a license or management agreement. The Act defines a "forest community" as "a group of persons who: (a) have a traditional association with a forest for purposes of livelihood, culture or religion (Article 3). The Forest Policy recognizes the "traditional interests of local communities customarily resident within or around a forest" (paragraph 4.3).

The National Policy on Culture and Heritage (2009) aims to promote and protect the cultures and cultural diversity among Kenya's ethnic communities. This includes the protection of indigenous languages, the expression of cultural traditions, knowledge, and practices, traditional medicines, and community rights.

National Policy for the Sustainable Development of Northern Kenya and other Arid Lands. The policy states that the Government will put in place an institutional and legal framework for the development of Northern Kenya and other arid lands. The policy thus calls on the government to establish a range of institutions that will provide long-term continuity in Arid and Semi-Arid Land (ASAL) development, including a National Drought Management Authority and National Drought and Disaster Contingency Fund to increase responsiveness to drought, National Council on Nomadic Education, a Northern Kenya Education Trust, a Livestock Marketing Board, and a Northern Kenya Investment Fund.

Environment and Land Court Act, No. 19 of 2011 "hears and determines disputes relating to environment and land, including disputes: (a) relating to environmental planning and protection, trade, climate issues, land use planning, title, tenure, boundaries, rates, rents, valuations, mining, minerals and other natural resources; (b) relating to compulsory acquisition of land; (c) relating to land administration and management; (d) relating to public, private and community land and contracts, chooses in action or other instruments granting any enforceable interests in land; and (e) any other dispute relating to environment and land.

International /UN Declarations/Treaties/Agreements

African Commission on Human and Peoples Rights (ACHPR). The Africa region has also taken important steps to recognize and apply the concept of Indigenous Peoples: The ACHPR, a sub-body of the African Union, adopted in 2005 the "Report of the African Commission's Working Group of Experts on Indigenous Populations/Communities11." The report recognizes the existence of populations who self-define as Indigenous Peoples, who are distinctly different from other groups within a state, have a special attachment to and use of their traditional land, and who experience subjugation, marginalization, dispossession, exclusion or discrimination because of their cultures, ways of life or modes of production different from those of the dominant society. The ACHPR report concludes that these types of discrimination and marginalization threaten the continuation of Indigenous Peoples' cultures and ways of life and prevents them from being able to genuinely participate in decisions regarding their own future and forms of development.

The report is the ACHPR's official conceptualization of, and framework for, addressing issues pertaining to IP, and as such it is an important instrument for recognizing Indigenous Peoples in Africa, improving their social, cultural, economic and political situation, and for protecting their human rights. The report outlines the following key characteristics, which identify certain social groups as IP in Africa:

- Their cultures and ways of life differ considerably from the dominant society;
- Their cultures are under threat, in some cases to the point of extinction;
- The survival of their particular way of life depends on access and rights to their lands and the natural resources thereon;
- They suffer from discrimination as they are regarded as less developed and less advanced than other more dominant sectors of society;
- They often live in inaccessible regions, often geographically isolated; and
  They suffer from various forms of marginalization, both politically and socially.

The ACHPR report concludes that these types of discrimination and marginalization threaten the continuation of Indigenous Peoples' cultures and ways of life and prevents them from being able to genuinely participate in decisions regarding their own future and forms of development. The report is the ACHPR's official conceptualization of, and framework for, addressing issues pertaining to Indigenous Peoples, and as such it is an important instrument for recognizing Indigenous Peoples in Africa, improving their social, cultural, economic and political situation, and for protecting their human rights. In line with the approach of the United Nations5, the ACHPR emphasizes the principle of self-identification, and stresses that the criteria for identifying Indigenous Peoples in Africa is not mainly a question of aboriginality but of the above factors of structural discrimination and marginalization. The concept should be understood as an avenue for the most marginalized to advocate their cause and not as an attempt to deny any African his/her rights to their African identity.

<u>IFAD's Policy on Engagement with Indigenous Peoples</u>. The Policy on Engagement with Indigenous Peoples aims to enhance IFAD's development effectiveness in its engagement with indigenous peoples' communities in rural areas. In its engagement with indigenous peoples, IFAD will be guided by nine fundamental principles:

i. Cultural heritage and identity as assets;
ii. Free, prior and informed consent;
iii. Community-driven development;
iv. Land, territories and resources;
v. Indigenous peoples' knowledge;
vi. Environmental issues and climate change;
vii. Access to markets;
viii. Empowerment; and
ix. Gender equality.

The preparation, implementation, and monitoring of this IPPF follows this policy.

7.5 Project Component Screening

The screening of Project components will be a mandatory requirement prior to implementation to determine if Indigenous Peoples are present in the specific subproject area, at which point it will be determined whether IP are present in, or have collective attachment to, the project area. In conducting this screening, the technical judgment of qualified social scientists with expertise on the social and cultural groups in the project area will be sought. Consultations with the IP concerned, and the executing agency will be undertaken.

The existing administrative structures of the County up to the village level will be used to inform the IP about the proposed project components and arrange for consultative meetings. Village Committee members, IP leaders will also be involved in dissemination of information about the meetings. Local radio stations may be used to communicate the meeting dates, venues, and purpose.

To ensure inclusive participation:

- Meetings may be conducted in indigenous languages or the national language;
- Representatives of the Indigenous Peoples in collaboration with the local administration in the sub project area will select a venue that is considered by way of mutual consensus as appropriate;
- Provide adequate notice for the meetings and allow time for consensus building, and the articulation by IPs of their views and preferences; and
  Ensure the time chosen for the meetings is appropriate for majority of the IPs to attend.

7.5.1 Screening Methodology

Screening will be done using a screening check list in a collaborative and consultative approach. RK-FINFA Environmental and Climate Change Officer (ECCO) and Social Inclusion Officer (SIO) will prepare the screening forms in collaboration with the implementing Counties for the specific project component.

The screening will use both IFAD's IP policy and the GOK definition. If the results show that there are IP in the zone of influence of the proposed component, a Social Assessment (SA) will be undertaken.
The impacts (positive or negative) on Indigenous Peoples are considered significant if the project:

i. Affects their customary rights of use and access to land and natural resources;
ii. Changes their socio-economic status and livelihoods;
iii. Affects their cultural and communal integrity;
iv. Affects their health, education, sources of income and social security status; and/or
v. Alters or undermines the recognition of indigenous knowledge.

7.5.2 Screening Criteria

The RK-FINFA Social Inclusion Officer will visit all IP settlements near the selected subproject areas, which may be affected and influenced by the project components. Public meetings will be arranged in selected communities by the RK-FINFA teams with the IP and their leaders to provide them information about the project and take their views. The consultant will be a social scientist with knowledge of IP in project areas.
During this visit, the screening team will undertake screening of the IP with the help of the community leaders and local authorities. The screening will cover the following aspects:

- Name(s) of IP in the area;
- Total number of IP in the area;
- Percentage of IP to that of total area/locality population;
- Number and percentage of IP households along the zone of influence of the proposed subproject;
- Livelihood activities that the IP are engaging in and their locations in the project area
- Potential impacts (positive or negative) of the project on the IP and vice versa
- Will an IPP be required if a project component affects an IP zone?
- Are the IP willing to be engaged in project activities and to give consent to the project in their regions?
- If no, why?

7.6 Social Assessment

Based on screening, should IP be present in, or have collective attachment to, the project area, a social assessment will be undertaken to evaluate the project's potential positive and adverse effects on the IP, and to examine project alternatives where adverse effects may be significant. The breadth, depth, and type of analysis required for the social assessment will be proportional to the nature and scale of the proposed project activities' potential effects on the Indigenous Peoples present.

The social assessment will also identify if the proposed component will involve change in use or management of commonly held properties in the community as well as involving the commercial development of natural and cultural resources on lands or territories that IP traditionally owned, or customarily used or occupied.

The information to be gathered for the SA should include (i) a baseline demographic, socio-economic, cultural, and political profile of the affected indigenous groups in the project area and project impact zone; (ii) assessment of land and territories that Indigenous Peoples have traditionally owned or occupied; (iii) assessment of natural resources on which Indigenous Peoples depend; (iv) assessment on their access to and opportunities they can avail of the basic and socio-economic services; (v) assessment of the short and long term, direct and indirect, positive and negative impacts of the project on each group's social, cultural and economic status; (vi) assessing and validating which indigenous groups will trigger the Indigenous peoples policy principles; and (vii) assessing the subsequent approaches and resource requirements for addressing the various concerns and issues of projects that affect them. The information can be gathered through meaningful consultation process.

The PMU's SIO will then prepare detailed Terms of Reference (ToR) for the social assessment study once it is determined that IP are present in the project area.

Further to this, the social assessment will ensure free, prior and informed consent/consultation with the IP during project planning and implementation. It will ensure that mitigation of potential adverse impacts, deriving from project activities, will be based on a participatory and consultative process acceptable to IFAD and the IP themselves.
Subproject investments will comply with the following other than social screening, namely:

- Conserve and sustainably use land and other natural resources that impact on IP and other communities;
- Mitigate any possible adverse impacts;
- Be socially and culturally acceptable to the IP and economically feasible Be institutionally feasible: Local institutionally capacity should be adequate to take up activities;
- Be environmentally sustainable and avoid detrimental impacts from those activities that cannot be mitigated;
- Be supported by the IP and other communities through participatory consultation; and
  Be supported by training and capacity building if necessary, to enhance IP and community development.

7.7 Stakeholder Engagement

Stakeholder Identification
All the interested and affected stakeholders will be identified with specific focus on Indigenous Peoples and will include an elaboration of a culturally appropriate process for consulting with the IP at each stage of project preparation and implementation. A

stakeholder mapping exercise will be conducted for each of the proposed project component where there is a likelihood of IP being affected.

Stakeholder Consultation
Once screening has been conducted and a project component is found to be located in an area where IP are present, the existing administrative structures –county and sub county leaders and chiefs and assistant chiefs will be used to inform the IP communities about the proposed project. County leaders in collaboration with RK-FINFA will facilitate and arrange for consultative meetings with members of the IP and in these meetings, there will be free and prior information about the proposed sub project, the proposed location, and potential adverse impacts of the project on the IP.

Such consultation will include use of indigenous languages, allowing time for consensus building, and selecting appropriate venues to facilitate the articulation by IP of their views and preferences. Representatives of the IP in collaboration with the local administration in the sub project area will select a venue that is considered by way of mutual consensus as appropriate.

Engagement will be based on honest and open provision of information, and in a form that is accessible to IP. Engagement will begin at the earliest possible stage, prior to substantive on-the-ground activity implementation. Engagement, wherever possible, will be undertaken through traditional authorities and structures within communities and with respect for traditional decision-making structures and processes. However, recognition of the limitation these structures sometimes pose for some groups, such as women and young people will be taken into account.

Good practice community engagement, in the context of IP and projects, will aim to ensure that:
- Indigenous Peoples understand their rights;
- Indigenous Peoples are informed about, and comprehend the full range (short, medium and long-term) of social and environmental impacts – positive and negative – that can result from the proposed investment;
- Any concerns that Indigenous Peoples have about potentially negative impacts are understood and addressed by the RK-FINFA;
- Traditional knowledge informs the design and implementation of mitigation strategies and is treated respectfully;
- There is mutual understanding and respect between the RK-FINFA and the Indigenous Peoples as well as other stakeholders;
- Indigenous Peoples aspirations are considered in project planning so that people have ownership of, and participate fully in decisions about, community development programs and initiatives;
- The project has the broad, on-going support of the Indigenous Peoples and;
- The voices of Indigenous Peoples are heard; that is, engagement processes are inclusive.

7.8 Impact Identification

The assessment of each project component’s beneficial and adverse impacts will be conducted based on free, prior, and informed consultation, with the affected IP.

In a participatory process the determination of potential adverse impacts will entail an analysis of the relative vulnerability of, and risks to, the affected IP given their distinct circumstances and close ties to land and natural resources, as well as their lack of access to opportunities relative to other social groups in the communities, regions, or national societies in which they live.

Another concern is that while projects may consider short-term positive or negative impacts, they usually fail to consider the long-term impacts that project interventions could have on the livelihood, social organization and cultural integrity of IP, such as dams/water point improvement projects that may open up remote areas and increase pressure on indigenous lands and resources. Therefore, the identification of impacts should consider the long-term impacts as well.

7.9 Determination of Mitigation Measures

The identification and evaluation, based on free, prior, and informed consultation with the affected IP, of measures necessary to avoid adverse effects, or if such measures are not feasible, the identification of measures to minimize, mitigate, or compensate for such effects, and to ensure that the IP receive culturally appropriate benefits under the project will be conducted in a participatory manner. The above-mentioned methods in the SA process will be used in determining mitigation measures. Mitigation measures may involve compensation as well and typical mitigation actions or compensations.

7.10 Development of strategies for participation of Indigenous Peoples

Participation will be through meetings with the different groups of Indigenous Peoples primarily to ensure that:

- The IP are aware of the project and its impacts;
- Aware of any restrictions and negative impacts;
- Provide support to IP participation arrangements in the project;
- Are aware of the GRM; and
- Provide broad community support.

Project component activities selected should ensure that the IP do not: Face further physical and economic displacements from land and other natural resources traditionally utilized by them as source of livelihood and basis for their cultural and social system.

Strategies for inclusion of Indigenous women and youth

While it is important to acknowledge the role of elders and other traditional community leaders, it should not automatically be assumed that those who occupy formal leadership positions, whether they be traditional or government appointed, represent all interests in the community. In particular, the RK-FINFA will need to be sensitive to those sections of the community who are frequently excluded from the decision-making process, such as women and youth.

During the Social Assessment, where it is determined that traditional decision-making structures exclude women and younger people, it may be necessary to obtain input from these groups by less direct means (for example, and where possible, via community needs surveys and baseline studies, or through informal discussions with small groups).

Also, in instances where Indigenous women and or youth are unable to contribute meaningfully in consultation meetings due to cultural requirements, FGDs with women only or youth only to be applied.

Overall RK-FINFA and the implementing partners will have to:

- Confer with the IP at the outset on how they wish to be engaged;
- Understand and respect local entry protocols as they relate to permission to enter a community and access traditional lands;
- Commit to open and transparent communication and engagement from the beginning and have a considered approach in place;
- Ensure that all representatives of the RK-FINFA staff carrying out the specific sub project investment including third party subcontractors and agents are well briefed

on local customs, history and legal status, and understand the need for cultural sensitivity;

- Regularly monitor performance in engagement and;
  Enlist the services of reputable advisers with good local knowledge.

7.11 Combined qualitative and quantitative analysis methods

Usually social assessment (SA) is comprehensive and involves complex social issues. quantitative analysis is preferred, such as for population structure, educational level and socioeconomic indicators. These indicators are analyzed arithmetically and evaluated objectively. Qualitative indicators that cannot be quantified should be analyzed and evaluated through a combination of qualitative and quantitative analysis, but primarily qualitative analysis. However, in this case the impacts are expected to be minimal and the social assessment/analysis will be in line with the scope of impacts identified and indeed will focus more on how to enhance coverage to more IP.

Comparative analysis method
The comparative analysis method is designed to find out the social profile of a project area in the absence of the project, and the impacts of the project on the area after its completion, thereby identifying the nature and degrees of different benefits and impacts.

Stakeholder analysis method
Stakeholders refer to all parties directly or indirectly affected by or interested in the Project and affecting the success of the Project directly or indirectly. The stakeholder analysis method identifies different stakeholders involved in the Project and prepares a stakeholder table, detailing stakeholder expectations, influences, roles and responsibilities for successful project implementation.

Participatory assessment
Participatory assessment is a method that involves all stakeholders in SA. The key points include listening to all stakeholders' opinions respecting all participants, showing interests in their knowledge, speeches and behaviours, and encouraging them to share their knowledge and ideas.
Through a semi-structured survey and whole-process participation, this method will make measures for mitigating social risks, and other programs concerning the affected persons' immediate interests more operable and acceptable.

Other methods
A number of data analysis tools and methods may be used in undertaking SA, including a) socioeconomic survey; b) institutional analysis; c) social gender analysis; d) social impact analysis; e) poverty analysis; and f) social risk assessment.

7.12 Conduct of the SA

The process of gathering baseline information on demographic social, cultural, and political characteristics of the affected IP, the land and territories that they have traditionally owned or customarily used or occupied, and the natural resources on which they depend will be through a participatory rural appraisal mapping exercise involving the IP in the proposed project area.

Mapping the community resources where the project investments are targeted will determine the sphere of influence, how the vulnerable and marginalized communities utilize the said resources so as to identify how the project can enhance utilization of these resources.

Regarding customary rights of IP to use of common resources, the mapping will provide information on (i) location and size of the area and condition of resource, (ii) primary users, including those that belong to IP that currently use or depend on these common resources, (iii) secondary users and the types of uses they make, (iv) the effects of these uses on the IP, and (vi) mitigation measures of adverse impacts if any.

The social assessment (SA) will be undertaken by the social consultants who will be recruited by the RK-FINFA as part of developing the Indigenous Peoples Plan. The ToR for the work will be shared with IFAD for clearance. The SA consultants will gather relevant information from separate group meetings: Discussions will focus on project component impacts, positive and negative; and recommendations for design of the project components. The social consultants will be responsible for carrying out the SA, analyzing the SA, and for leading the development of the IPP.

7.13 Indigenous Peoples Plan (IPP)

An Indigenous Peoples Plan (IPP) is required for all projects with impacts on IP. Its level of detail and comprehensiveness is commensurate with the significance of potential impacts on IP. An IPP contains specific measures to ensure that the IP receive social and economic benefits that are culturally appropriate, including measures to enhance the capacity of the project implementing agencies and other stakeholders. The IPP will be prepared through a consultative process to achieve FPIC.

The outline below will guide preparation of an Indigenous Peoples Plans (IPP) for RK-FINFA, although not necessarily in the order shown.

Executive Summary: This section concisely describes the critical facts, significant findings, and recommended actions.

Description of the Project: This section provides a general description of the project; discusses project components and activities that may bring impacts on IP; and identify project area.

Social Impact Assessment: This section:

- Reviews the legal and institutional framework applicable to IP in project context.
- Provides baseline information on the demographic, social, cultural, and political characteristics of the affected IP communities; the land and territories that they have traditionally owned or customarily used or occupied; and the natural resources on which they depend.
- Identifies key project stakeholders and elaborate a culturally appropriate and gender-sensitive process for meaningful consultation with IP at each stage of project preparation and implementation, taking the review and baseline information into account.
- Assesses, based on meaningful consultation with the affected IP communities, and the potential adverse and positive effects of the project. Critical to the determination of potential adverse impacts is a gender-sensitive analysis of the relative vulnerability of, and risks to, the affected IP communities given their particular circumstances and close ties to land and natural resources, as well as their lack of access to opportunities relative to those available to other social groups in the communities, regions, or national societies in which they live.
- Includes a gender-sensitive assessment of the affected IP's perceptions about the project and its impact on their social, economic, and cultural status.
- Identifies and recommends, based on meaningful consultation with the affected IP communities, the measures necessary to avoid adverse effects or, if such measures are not possible, identifies measures to minimize, mitigate, and/or

compensate for such effects and to ensure that IP receive culturally appropriate benefits under the project.

Information Disclosure, Consultation and Participation: This section:

- Describes the information disclosure, consultation and participation process with the affected IP communities that can be carried out during project preparation;
- Summarizes their comments on the results of the social impact assessment and identifies concerns raised during consultation and how these have been addressed in project design;
- In the case of project activities requiring broad community support, documents the process and outcome of consultations with affected IP communities and any agreement resulting from such consultations for the project activities and safeguard measures addressing the impacts of such activities;
- Describes consultation and participation mechanisms to be used during implementation to ensure IP participation during implementation; and
- Confirms disclosure of the draft and final to the affected IP communities.

*Beneficial Measures**:*** This section specifies the measures to ensure that IP receive social and economic benefits that are culturally appropriate, and gender responsive.

*Mitigative Measures**:*** This section specifies the measures to avoid adverse impacts on IP; and where the avoidance is impossible, specifies the measures to minimize, mitigate and compensate for identified unavoidable adverse impacts for each affected IP group.

*Capacity Building**:*** This section provides measures to strengthen the social, legal, and technical capabilities of (a) government institutions to address IP issues in the project area; and (b) IP organizations in the project area to enable them to represent the affected IP more effectively.

Grievance Redress Mechanism: This section describes the procedures to redress grievances by affected IP communities. It also explains how the procedures are accessible to IP and culturally appropriate and gender sensitive.

Monitoring, Reporting and Evaluation: This section describes the mechanisms and benchmarks appropriate to the project for monitoring and evaluating the implementation of the IPP. It also specifies arrangements for participation of affected IP in the preparation and validation of monitoring, and evaluation reports.

Institutional Arrangements: This section describes institutional arrangement responsibilities and mechanisms for carrying out the various measures of the IPP. It also describes the process of including relevant local organizations and/or NGOs in carrying out the measures of the IPP.

Budget and Financing: This section provides an itemized budget for all activities described in the IPP.

7.14 Grievance Redress Mechanism for IP

7.14.1 Overview

RK-FINFA will establish a mechanism to receive and facilitate resolution of affected IP concerns, complaints, and grievances about the project’s safeguards performance at each project component having IP impacts.

The Grievance Redress Mechanism (GRM) will be specific to addressing the concerns of the IP. The grievance redress mechanism should be designed with the objective of solving disputes at the earliest possible time and at the lowest levels where the IP reside for quick resolution. The traditional dispute resolution structures used by IP will be used as the first step in resolving grievances.
The IP will be provided with a variety of options for communicating issues and concerns, including in writing, orally, by telephone, over the internet or through more informal methods as part of the grievance redress mechanism.

In the case of marginalized groups (such as women and young people), a more proactive approach may be needed to ensure that their concerns have been identified and articulated. This will be done, for example, by providing for an independent person to meet periodically with such groups and to act as an intermediary. Where a third-party mechanism is part of the procedural approach to handling complaints, one option will be to include women or youth as representatives on the body that deals with grievances. It should be made clear that access to the mechanism is without prejudice to the complainant's right to legal recourse.

Prior to the approval of individual IPPs, the affected IP will have been informed of the process for expressing dissatisfaction and seeking redress. The grievance procedure will be simple and administered as far as possible at the local levels to facilitate access, flexibility and ensure transparency.

Many of the factors that may give rise to conflict between IP and proposed project investments can be a source of conflict with non-IP as well. These include, for example:

- Establishing a project component in the absence of broad community support;
- Inadequate engagement or decision-making processes;
- Inadequate or inequitable compensation for land (if applicable);
- Inequitable distribution of benefits;
- Broken promises and unmet expectations of benefits;
- Failing to generate opportunities for employment, training, supply or community development;
- Environmental degradation
- Disruption to amenities and lifestyle;
- Loss of livelihood;
- Violation of human rights and;
- Social dislocation.

In addition, however, there are some contextual factors that have salience for Indigenous Peoples and their relations with project components. For example, a lack of respect (perceived or actual) for indigenous customary rights or culture, history and spirituality, is likely to trigger a strong reaction.

Similarly, issues around access to and control of land and the recognition of sovereignty are very important for many IP and can lead to serious conflict if they are not handled sensitively and with due respect for the rights of affected groups.

Grievances will be actively managed and tracked to ensure that appropriate resolution and actions are taken. A clear time schedule will be defined for resolving grievances, ensuring that they are addressed in an appropriate and timely manner, with corrective actions being implemented if appropriate and the complainant being informed of the outcome. The grievance procedure will be simple and will be administered as far as possible, at the subproject level by the relevant institutions and partners.

The grievance procedure does not replace existing legal processes. Based on consensus, the procedures will seek to resolve issues quickly in order to expedite the receipt of entitlements, without resorting to expensive and time-consuming legal actions. If the grievance procedure fails to provide a result, complainants can still seek legal redress.

7.14.2 Grievance Redress Process for the IPP

The IPP will establish a mechanism to receive and facilitate resolution of affected IP' concerns, complaints, and grievances about the project's safeguards performance at each component level having IP impacts, with assistance from the RK-FINFA.

All sections of the community where a project component is identified, including those with low levels of literacy, should be able to access the grievances mechanism easily. The RK-FINFA should facilitate access by maintaining and publicizing multiple access points to complaint mechanisms, such as at the project site and in key locations within communities, including remote communities.

The procedure for grievance redress will be incorporated in the project information pamphlet to be distributed prior to implementation, and FPIC on it acquired. Participatory consultation with affected households will be undertaken during project planning and implementation stages.

Establishment of Grievance Redress Committee

A Grievance Redress Committee (GRC) will be established at the project area once it has been determined that IP are present in an area and that an IPP is needed. The composition of the Committees will include representatives of the IP, women, youth, PWDs, local NGOs/CBOs, and local administration. The GRCs are to be formed and activated during the IPPs implementation process to allow IP enough time to lodge complaints and safeguard their recognized interests. Assistance to IP will be given to document and record the complaint, and if necessary, provide advocate services to address the grievances. As is normal practice under customary law, attempts will be made to ensure that the traditional leaders via the GRC solve all disputes in communities after a thorough investigation of the facts. The traditional dispute resolution structures existing for each of the IP will be used as the first step in resolving grievances.

Grievance Log Documentation and Recording

Documentation of complaints and grievances is important, including those that are communicated informally and orally. These should be logged, assessed, assigned to an individual for management, tracked and closed out or "signed off" when resolved, ideally with the complainant(s) being consulted, where appropriate, and informed of the resolution. Records provide a way of understanding patterns and trends in complaints, disputes and grievances over time. While transparency should be maintained – for example, through regular reports on issues raised and rates of resolution – provision should also be made for confidentiality of information or anonymity of the complainant(s) whenever necessary.

A grievance log will be established by the RK-FINFA and executing partner agencies and copies of the records kept with all the relevant authorities at the County, Sub County and Village level and will be used in monitoring of complaints and grievances.

In each sub project investment, the RK-FINFA Community Liaison Officer, will ensure that each complaint has an individual reference number, and is appropriately tracked and recorded actions are completed. The log also contains a record of the person responsible for an individual complaint, and records dates for the following events:

- Date the complaint was reported;
- Date the grievance log was uploaded onto the project database;

- Date information on proposed corrective action sent to complainant (if appropriate);
- The date the complaint was closed out; and
- Date response was sent to complainant.

Responding to Complaints

Once parties agree on a path forward – such as an apology, or an adjustment to operations – an action plan should be formalized and implemented. Depending on the issue, responses may vary from a single task to a program of work that involves different parts of the operation. Effective responses will also include engagement with parties involved to ensure that the response continues to be appropriate and understood. Communities should also be advised of the closeout of the issue and what has been done to achieve it. This feedback provides an opportunity for the PIU to demonstrate that it has addressed the issue as well as confirming that the community considers the response satisfactory and the matter closed.

Monitoring Complaints

It is important to collect data on community interactions – from low-level concerns and complaints to ongoing disputes and higher-order grievances – so that patterns can be identified, and project management alerted to high-risk issues. Effective monitoring may also help to prevent the escalation of lower-level disputes into more serious conflicts.

Information related to monitoring of the IPPs will be gathered through various channels, such as formal review, evaluation and analysis or through day-to-day interaction with IP. Monitoring will help determine the effectiveness of processes for responding to community concerns; for example, by tracking complaint resolution rates over time. This information can then be used to refine the system and improve the outcomes being achieved. The outcomes of monitoring should be reported formally to the community on a regular basis, in addition to being used for internal management purposes.

The IP/Project Community Liaison Officer for each project component will be responsible for:

- Providing reports detailing the number and status of complaints;
- Any outstanding issues to be addressed; and
- Monthly reports, including analysis of the type of complaints, levels of complaints, and actions to reduce complaints.

7.14.3 Use of Alternative Dispute Resettlement Mechanisms

The Environment and Land Court Act provides for dispute resolution through the Land and Environment Court. However, as is normal practice under customary law, traditional leaders play a leading role in solving disputes in communities through investigation of the facts using the services of local officials. The traditional dispute resolution structures existing for each of the IP will be used as the first step in resolving grievances. Those seeking redress and wishing to state grievances would do so by notifying their traditional leader of the IP or the appropriate administrative authority, who will in turn inform and consult with the RK-FINFA.

Further Redress-Kenya Courts of Law. All the grievances that will not be resolved by the GRC or which the IP are dissatisfied with in terms of resolution will be channeled to the existing structures in Kenya for handling grievances which is the Kenyan Courts of Law as the last resort.

7.14.4 IFAD Complaints Procedure

A complaint relating to non-compliance with IFAD's Social and Environmental Policies and mandatory aspects of its SECAP can be submitted in any of the following ways:

i. Download the complaints form (Word)
   Send an email to SECAPcomplaints@ifad.org

However, this is only encouraged if the complainant has already brought the matter to the attention of the government or non-governmental organisation responsible for planning or executing the project or programme (the Lead Agency), or to any governmental body with the responsibility for overseeing the Lead Agency without adequate resolution, or if the complainants feel they might be subject to retaliation if they went to the Lead Agency directly.

7.15 Implementation of the IPPF

The IPPF will be implemented in three phases:

- **County and IP sites disclosure of the IPPF:** This will entail sharing the IPPF details through county forums and specific IP sites. During this disclosure forums and meetings additional comments and views will be gathered and included in the design process as well as ensuring broad support of the RK-FINFA by the county government and IP.
- **Development of standardized Capacity Development Manuals.** The manuals will be developed to include the consultation process; Participatory Impact Monitoring, conflict redress process and grievance redress mechanism.
- **Capacity Development and Coaching of Relevant Stakeholders:** Capacity development and coaching activities will entail training session for various stakeholders such as RK-FINFA, County officials, IP NGOs, CBOs etc. In addition, during the IPPF implementation coaching sessions will be mounted on the project activities to ensure any negative impact on the IP are mitigated and/or avoided and that they share benefits that accrue from the RK-FINFA.

7.16 Disclosure Arrangements

This IPPF and project component IPPs will be made available to the affected IP in an appropriate form, manner, and language.

Once IFAD accepts the documents as providing an adequate basis for project appraisal, it will make them available to the public in accordance with its policy on disclosure of information, and the GOK will also make the documents available to the affected communities in the same manner.

Each project component IPP will be disclosed to the affected IP. This will be done through public consultation and made available as brochures, leaflets, or booklets, using local languages. Summary of the IPP will be made available in hard copies and in local language at: Offices of the NT&P; Sub County or County Office; and any other local level public offices. Electronic versions of the framework as well as the IPPs will be placed on the official website of the NT&P.

7.17 Specific Capacity-Building for IP

As the target groups are consulted and awareness of the social and economic inclusion principle of the project is widely shared, IP will be invited to participate in training and capacity building sessions. The IP may have specific capacity building needs, and dedicated skills training funded through potentially dedicated funding. Youth from the IP like in other communities may need separate training programs, tailored to their needs and lifestyle. Such trainings may be proposed during the FPIC. RK-FINFA will develop a training program targeting relevant project actors at the national, county, sub-county and community levels with each target with relevant training module and knowledge, skills and practice areas. The targeted audience will include the IP, the Grievance Redress Committees, CSOs, IPOs, NGOs, FBOs among others.

Terms of Reference and the selection process for facilitators and trainers will ensure that candidates who can deliver training modules in an inclusive way to be hired. Also, language and tools to be used in documents and training should factor in potential barriers these media can pose to the participation of certain excluded groups in capacity building measures. The county government should explore the possibility and ensure the language and modality of training provision would not exclude certain groups of members.

7.18 Roles and Responsibilities

RK-FINFA

The ECCO and SIO will remain responsible for:

- Screening for project components affecting Indigenous Peoples
- Review project proposals, ensuring that they adequately apply IFAD's Indigenous Peoples Policy;
- Assess the adequacy of the assessment of project impacts and the proposed measures to address issues pertaining to affected indigenous communities. When doing so project activities, impacts and social risks, circumstances of the affected indigenous communities, and the capacity of the applicant to implement the measures should be assessed.
- Assess the adequacy of the consultation/FPIC process and the affected indigenous communities' broad support to the project—Monitor project implementation, and include constraints and lessons learned concerning IP and the application of this IPPF in its progress and monitoring reports; it should be assured that affected IP are included in monitoring and evaluation exercises.

Non-Governmental Organizations

The NGOs present and active in the area will be used during the social assessment studies as well as during the monitoring and evaluation of each project component. The formation of Grievance Redress Committees for each project component will also include representation by NGOs.

IFAD

IFAD will receive all the IPPs prepared and review and provide a No Objection or otherwise prior to project component implementation. During implementation, IFAD will also conduct field monitoring and evaluation.

7.19 Budget

Implementation costs for IPPs will be financed by RK-FINFA. At this stage, it is not possible to estimate the exact number of IP who may be affected under RK-FINFA. It is therefore not possible to provide a budget for the total cost of IPP that may be associated with RK-

FINFA implementation. However, after the conclusion of the site-specific socio-economic study, a detailed and accurate budget for each IPP will be prepared.
The following is a list of items to budget for in an IPP:

- Preparation of IPP
- Sensitization/Awareness creation for stakeholders at National, County and investment /community levels
- Capacity building (technical staff, GRCs, and IP)
- Disclosure costs for IPPs
- Mitigation measures: Targeted support to the IP
- Stakeholders trainings/ consultation forums on IPPF
- Monitoring and evaluation of the implementation of IPP
- Annual IPPs audit
- Establish/Operationalize GRM Committees.

7.20 Monitoring and Evaluation

7.20.1 Mechanisms for monitoring, evaluation and reporting

All project results indicators will be disaggregated by gender to monitor women's participation in the project interventions. The project will also enhance inclusion of vulnerable female-headed households and child-headed households living in the targeted counties or those from marginalized communities of Kenya.

The implementation of IPPs will be monitored. The PMU will establish a monitoring system involving the project staff at national and county level, as well as community groups of IP to ensure effective implementation of IPP. A set of monitoring indicators will be determined during IPP implementation and will be guided by the indicators contained in this IPPF document. The project support consultants will carry out monitoring, as will the IFAD social staff. Appropriate monitoring formats will be prepared for monitoring and reporting requirements.

For any project component found to have significant adverse impacts on IP, external experts or NGOs will be engaged to verify monitoring information.

Table 7-2 Monitoring and Evaluation Indicators for IPPF

Issues	Indicator	Responsibility	Data Sources
Accessibility of project benefits to IP	Number of IP households benefitting from project interventions	RK-FINFA	Reports
Capacity Building for implementation of IPPF	Number of individuals & institutions trained	RK-FINFA	Training reports
IP Orientation and Mobilization	Number of IP meetings; Number of IP sensitized	RK-FINFA, IP Organizations/Elders	Reconnaissance survey reports Community meeting reports
Consultations with IP	Number/Attendance reports of IP	RK-FINFA, IP Organizations/Elders	Reports
Mapping of community resources critical to IP	Level of IP participation Reports verified and accepted by IP	RK-FINFA, IP Organizations/Elders	Baseline survey reports Community transect reports

Issues	Indicator	Responsibility	Data Sources
Development of strategies for participation of IP and mitigation measures	Number of projects passed by social screening	RK-FINFA, IP Organizations/Elders	KEMP/PIU Reports
	Number of sub projects implemented		Implementing agencies reports
Capacity Building	Types of training Number of Trainings Attendance by IP	RK-FINFA, IP Organizations/Elders	Training reports
Equitable representation of IPS in decision making organs	Number of meetings attended by IP representatives Number and types of IP issues articulated	RK-FINFA, IP Organizations/Elders	IPSO reports
Participatory M&E with IPS	Internal M&E External M&E	RK-FINFA, IP Organizations/Elders	

7.20.2 Monitoring and Evaluation Benchmarks

Typical key indicators and topics for monitoring and evaluation of IPPs are:

- Process of consultation/FPIC activities;
- Economic/Nutrition status of IPPs in comparison with pre-project condition
- Status of IP as identified in the SA;
- Any disadvantaged condition to IP that was not anticipated during the preparation of IPPs, that required corrective actions; and
- Grievance redress issues.

7.21 Reporting

Annual progress reports will be prepared by the PMU, where the ECCO and SIO provide input, supported by the environmental and social officers in the project counties and community levels. These reports will be submitted to IFAD.

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 9: Integrated Project Risk Matrix (IPRM)

Document Date:	21/10/2021
Project No.	2000003431
Report No.	5786-KE

East and Southern Africa Division
Programme Management Department

Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context	**Substantial**	**Moderate**
Political Commitment	*Substantial*	*Moderate*
Governance	*Substantial*	*Moderate*
Macroeconomic	*Substantial*	*Moderate*
Fragility and Security	*Moderate*	*Moderate*
Sector Strategies and Policies	**Substantial**	**Moderate**
Policy alignment	*Substantial*	*Moderate*
Policy Development and Implementation	*Substantial*	*Moderate*
Environment and Climate Context	**Substantial**	**Moderate**
Project vulnerability to environmental conditions	*Substantial*	*Moderate*
Project vulnerability to climate change impacts	*Substantial*	*Moderate*
Project Scope	**Moderate**	**Low**
Project Relevance	*Moderate*	*Low*
Technical Soundness	*Moderate*	*Low*
Institutional Capacity for Implementation and Sustainability	**Substantial**	**Moderate**
Implementation Arrangements	*High*	*Moderate*
Monitoring and Evaluation Arrangements	*Moderate*	*Moderate*
Project Financial Management	**Substantial**	**Moderate**
Project Organization and Staffing	*Moderate*	*Moderate*
Project Budgeting	*Moderate*	*Moderate*
Project Funds Flow/Disbursement Arrangements	*Substantial*	*Moderate*
Project Internal Controls	*Substantial*	*Moderate*
Project Accounting and Financial Reporting	*Substantial*	*Moderate*
Project External Audit	*Moderate*	*Moderate*
Project Procurement	**Moderate**	**Moderate**
Legal and Regulatory Framework	*Moderate*	*Moderate*
Accountability and Transparency	*Moderate*	*Moderate*
Capability in Public Procurement	*Substantial*	*Moderate*
Public Procurement Processes	*Moderate*	*Moderate*
Environment, Social and Climate Impact	**Moderate**	**Low**
Biodiversity Conservation	*Moderate*	*Low*
Resource Efficiency and Pollution Prevention	*Moderate*	*Low*
Cultural Heritage	*Substantial*	*Moderate*
Indigenous People	*Moderate*	*Low*
Labour and Working Conditions	*Substantial*	*Moderate*
Community Health and Safety	*Low*	*Low*
Physical and Economic Resettlement	*Low*	*Low*
Greenhouse Gas Emissions	*Low*	*Low*
Vulnerability of target populations and ecosystems to climate variability and hazards	*Low*	*Low*

Risk Category / Subcategory	Inherent risk	Residual risk
Stakeholders	**Substantial**	**Moderate**
Stakeholder Engagement/Coordination	*Substantial*	*Moderate*
Stakeholder Grievances	*Moderate*	*Low*
Overall	**Substantial**	**Moderate**

Country Context	**Substantial**	**Moderate**
Political Commitment	***Substantial***	***Moderate***
Risk: Risk(s): The GoK has reiterated its support to sound macroeconomic policies, as well as to agricultural and rural policies based on increased private-sector focus and much increased emphasis on smallholder participation in key agricultural value chains. Similarly, as discussed in SECAP in detail, the policy framework for CC and environmental policies as well as appropriate gender and youth policies is largely in place. However, the rapidly increased public debt, which has accelerated due to COVID-19, can be seen as a major risk for political commitment to implement the above policies in practice. The increased public debt, combined with the upcoming 2022 general elections, may impact the GoK ability to adhere to commitments on counterpart funding. This can endanger the both the approval and subsequent implementation of loan-based development projects, including the IFAD-supported ones.	Substantial	Moderate
Mitigations: Mitigations: During design, the GoK has repeated its full commitment to RK-FINFA, including to its relatively high financing share of the project costs. The Government sees RK-FINFA as an integral part of both the short-term COVID-19 recovery efforts in rural areas and as a long-term instrument to channel increased volumes of finance from FIs to agricultural and rural activities. In also sees the GFF, established with RK-FINFA support, as one of the entry points for PFIs to finance and for farmers to engage in climate smart production activities. For the guarantee operations, the initial GoK funding would come from the existing PROFIT reflows, and the framework for the future pipeline of state budget funds for GoK contributions has already been agreed on.		
Governance	***Substantial***	***Moderate***
Risk: Risk(s): Governance and transparency issues persist, as shown in 2019 Corruption Perceptions Index for Kenya, resulting in high Governance Risk and corruption-related risk rating. Lengthy Government processes to establish Project Management Units and conduct procurement have delayed start-up of projects. Despite improved systems, problems in effective monitoring and reporting by GoK persist.	Substantial	Moderate
Mitigations: Mitigations: For RK-FINFA, the main responsibility for almost all the components has been contracted to intermediaries, with tested implementation guidelines and methods, supported by systematic development of eligibility rules and procedures for RK-FINFA project activities. The intermediaries are also responsible for largest part of small scale procurements to avoid obstacles potentially emerging from GoK procurement and management processes.		
Macroeconomic	***Substantial***	***Moderate***

Risk: Risk(s): Over the past 10 years, Kenya economy has grown rapidly. The average GDP growth in 2010 – 2019 was 5.85 per cent, supported especially by a friendly business climate, strong public infrastructure spending and regional trade. However, maintaining the achieved economic growth levels during RK-FINFA period will be a challenge. The public debt has rapidly increased and currently surpasses the standard risk levels. Due to COVID-19 and environmental shocks, the economy contracted by 1.0 per cent in 2020. Recovery expected to take longer than initially assumed, affecting practically the whole RK-FINFA period.	Substantial	Moderate
Mitigations: Mitigations: The GoK economic measures for recovery include tax reliefs, cash-transfers, suspension of loan default penalties, and bank debt restructuring. RK-FINFA contributes to the GoK efforts to implement counter-cyclical, pro-growth measures especially for the rural and agriculture sector. The longer-term impact of RK-FINFA support through R-CGS and GFF on growth and rural climate smart diversification can be significant, especially if other external financiers can be attracted to support these key RF-FINFA key investment instruments.		
Fragility and Security	***Moderate***	***Moderate***
Risk: Risk(s): past trends indicate that Kenya is vulnerable to electoral violence and political and ethnic rivalry, as has been experienced in the aftermath of the 2007 elections and to a much lesser extent in 2013 and 2017. It is possible that the elections scheduled in 2022 could result in violence, given the current heightened political tensions in the country. Other factors contributing to the country's fragility include regular banditry and ethnic clashes in some ASAL counties, and terrorist attacks particularly in northern border areas.	Moderate	Moderate
Mitigations: Mitigations: Issues of electoral and terrorism-related violence have been addressed through: (i) the 2010 Constitution which established a two-tier government at national and county levels, (ii) continuous sensitisation of the population in conflict prone counties to the need to cooperate with the authorities and to participate in the prevention of attacks; (iii) heightened border and internal security against terrorism; and (v) stronger enacted laws that give more powers and autonomy to the anti-corruption agency. While taking precautions for Kenya's security issues, RK-FINFA will avoid focusing its activities in areas where there are high levels of insecurity due to tribal clashes and terrorism.		
Sector Strategies and Policies	**Substantial**	**Moderate**
Policy alignment	***Substantial***	***Moderate***
Risk: Risk(s): Kenya's agricultural and financial sector policies are generally well aligned with IFAD's core policies. However, while a full police alignment between GoK and IFAD can be agreed on, the Government has adopted a more cautious approach in negotiating external debt. This has often resulted in long delays in signing of financing agreements with international financiers, which adversely affects the co-operation between GoK and international financiers, including IFAD.	Substantial	Moderate
Mitigations: Mitigations: RK-FINFA fully follows the key GoK policies on rural transformation and financial sector development. It is also seen as a part of the GoK recovery programme. The financial arrangements for the projects are arranged in a manner (large private sector leverage, the use of PROFIT reflows) that supports a smoother co-operation with Government that has been the case in some earlier IFAD-supported projects.		
Policy Development and Implementation	***Substantial***	***Moderate***

Risk: Risk(s): As indicated above, the policy framework in relatively well developed and supportive for agricultural and inclusive financial sector development in Kenya. In reality, the implementation of many relevant policies suffers from lack of resources and capacities in the GoK structures to develop action plans and in practice implement these policies to diversify and modernize the rural sector.	Substantial	Moderate
Mitigations: Mitigations: The key RK-FINFA investment components, R-CGF and GLL, and the related capacity building support directly support the implementation of key rural policies of the GoK. Importantly, potentially valuable support to policy development and implementation will be provided through Sub-component 3.1, which is solely geared to policy support in the observed gaps in the policy framework for the RK-FINFA support operations.		
Environment and Climate Context	**Substantial**	**Moderate**
Project vulnerability to environmental conditions	***Substantial***	***Moderate***
Risk: Risk(s): Given that end line investments are targeted at smallholders and rural enterprises, land degradation, water availability etc. may adversely affect these investments.	Substantial	Moderate
Mitigations: Mitigations: Environment and Social Management Systems (ESMS) will be established or strengthened in the PFIs. Capacity building of the beneficiaries and advisory services of the PFIs will inform the selection of environmentally friendly technologies and resources provided for these investments. The Environment and Social and Social management Framework (ESMF) will articulate measures to manage risks.		
Project vulnerability to climate change impacts	***Substantial***	***Moderate***
Risk: Risk(s): Climate shocks such as droughts and floods as well as incidence of pests and diseases will impact the end line investments, particularly those in the agricultural sector, by the smallholders and micro-enterprises. Climate change impacts can also affect loan repayments and thus the portfolio of the PFIs. The marginalization of women and youth beneficiaries, and persons with disabilities, who are more vulnerable to climate change because they face discrimination and inequalities in accessing land and water, markets, technologies, and credit.	Substantial	Moderate
Mitigations: Mitigations: Climate change risk management will be incorporated in the ESMS of the PFIs. Training and advisory services will be provided for the target beneficiaries to enhance their resilience and financial resources provided for green investments. The products under the green financing will promote climate resilience. RK-FINFA targeting approach is that women comprise 50% of beneficiaries, youth comprise 30% and a minimum of 5% of beneficiaries will be from vulnerable groups (marginalized groups including persons with disabilities and persons with HIV).		
Project Scope	**Moderate**	**Low**
Project Relevance	***Moderate***	***Low***

Risk: Risk(s): The relevance risk for the designed project instruments includes: (i) targeted potential PFIs will not agree with the proposed RK-FINFA guarantee scheme terms and conditions, (ii) the PFIs will continue business as usual regardless the guarantees provided, (iii) the TSIS service providers have limited skills to offer meaningful support to the PFIs and MSMEs and smallholders, and (iv) PFIs, MSMEs and rural households have less than anticipated demand for the green investment products.	Moderate	Low
Mitigations: Mitigations: The project instruments of RK-FINFA have been assessed as highly relevant for Kenya, through comprehensive stakeholder consultations. The mitigations include: (i) the rural credit guarantee scheme terms and conditions have been discussed and vetted with potential PFIs; seven banks have already signed the overall guarantee framework, (ii) the eligibility criteria for investments under guarantee protection, as well as the respective monitoring system, have been detailed, (iii) the TSIS service providers will be selected from private markets and the identification is done jointly with PFIs, (iv) demand for green investment products has been confirmed during the project design mission and through a background study, and furthermore, during the first two project years while building green investment pipeline the PFIs are allowed to utilize 50% of GFF resources to normal rural and agricultural investment targets.		
Technical Soundness	***Moderate***	***Low***
Risk: The proposed project structure is based on experiences and lessons learned from similar projects in Kenya and the ESA region. Based on experiences from these projects, key inherent risks include: (i) processes and approvals of RK-FINFA investment instruments are delayed, which results in loss of momentum by PFIs, (ii) the conditions provided to the PFIs are not attractive and results in loss of momentum by PFIs, (iii) reluctance by smallholders and agribusiness entrepreneurs to borrow through the supported channels, (iv) non-repayment risk in the lending provided to smallholders and agribusinesses, and (v) elite capture of project resources.	Moderate	Low
Mitigations: Key mitigations include: (i) RK-FINFA instruments and implementation mechanism built on the institutional capacity developed during PROFIT, which together with intensive IFAD start up support will minimize delays, (ii) seven financial institutions have agreed to the conditions provided by the guarantee scheme and its soundness was vetted during the design mission consultations, (iii) demand mapping has been conducted by the Financial Sector Deepening Kenya, WB, and by the RK-FINFA design mission, and demand for lending through the supported channels has been confirmed, (iv) the TSIS will ensure that all IFAD resources will target productive investments through sustainable and suitable lending products, which will reduce NPLs; the grass root PFIs making loans to end-beneficiaries carry the full GFF non-repayment risk; the guarantee scheme non-repayment risk is expected to reduce the guarantee pool up to 2% annually, and (v) the project will provide technical services to the participating FIs to enable them to develop : financial products suitable for RK-FINFA target groups in the agriculture value chains and to monitor the investments, and provide BDS and financial literacy services to RK-FINFA target groups to ensure they have sufficient capacity to access the developed financial services.		
Institutional Capacity for Implementation and Sustainability	**Substantial**	**Moderate**
Implementation Arrangements	***High***	***Moderate***

Risk: Risk(s): IFAD-supported projects in Kenya have suffered from less than optimal GoK performance in project implementation. Due to the Government's debt situation and decreased fiscal space, GoK continues to cut back on spending, often putting ceilings on AWPBs of projects and potentially further lowering the implementation capacities in government institutions.	High	Moderate
Mitigations: Mitigations: The whole RK-FINFA implementation approach is based on engagement of intermediaries in the implementation of key investment components. These include an operational CGF unit in NT, private financial institutions as well as consultancy companies and experienced local and international NGOs. With ring-fenced financing, these arrangements aim to significantly improve the changes of successful and cost-efficient implementation of RK-FINFA.		
Monitoring and Evaluation Arrangements	***Moderate***	***Moderate***
Risk: Risk(s): IFAD experience has shown that most FIs are weakly motivated to invest time or money to monitor the social aspects of project implementation progress, outputs, and outcomes. The lack of commitment to monitoring by key implementing partners could risk the appropriate measurement of the project's performance and its successes or failures.	Moderate	Moderate
Mitigations: Mitigations: Effective monitoring and accurate reporting will be critical in the R-CGS and GFF schemes, under which the issuing of the client loans is carried out by the selected PFIs. The improvement of the MIS systems of the PFIs is a core target function of Component 1 technical support activities. Most of the required performance reporting data will be automatically available from the IT-based accounting/management information systems of the CBK or SASRA-regulated PFIs. This data will be electronically submitted by the PFIs to the NT and GFF Host, which will aggregate it to be able to periodically present the whole scheme level data. The estimation of the development impact of the R-CGS and GFF interventions on supported projects, including the smallholder households, will be surveyed by the RK-FINFA through specific, sample-based baseline studies and then through repeat studies after the supported projects/investments are fully implemented.		
Project Financial Management	**Substantial**	**Moderate**
Project Organization and Staffing	***Moderate***	***Moderate***
Risk: While the PMU shall be made up of relevantly qualified personnel with appropriate expertise in their chosen fields, there may be lack of PMU staff familiarity with IFAD procedures.	Moderate	Moderate
Mitigations: IFAD FMD will provide capacity building training to the Finance Staff who will selected competitively. The capacity building will include familiarization with IFAD procedures on financial reporting, expenditures categorizations across components, categories and alignment with Government chart of accounting, financial reporting timelines and other financial management related to the project .		
Project Budgeting	***Moderate***	***Moderate***

Risk: There may be a risk that annual work plans and budgets are not prepared or revised on a timely basis, and not executed in a coherent manner, resulting in funds not being available when needed, ineligible costs and reallocation of project funds and slow implementation progress. There is also a risk that the Participating Financial Institutions (PFIs) do not budget and contribute their co-financing of TSIS costs which are designed at a minimum of 20% for the commercial banks, 15% for the MFBs and 10% for SACCOs. This may affect the execution of TSIS activities.	Moderate	Moderate
Mitigations: The Financial Controller of the PMU will liaise with other PMU staff led by Project Coordinator and with close coordination with TSIS Coordinator to ensure timely preparation budget. The expected contributions from participating financial institutions will be embedded in MoU with the PFIs and monitored regularly by TSIS Coordinator to ensure they are well met and do not impact on project execution.		
Project Funds Flow/Disbursement Arrangements	***Substantial***	***Moderate***
Risk: There is a risk of commingling of funds at the entity which will be provided with advances for implementation of project activities. These includes National Treasury which will receive advances from IFAD and TSIS coordinator(s) for handling TSIS activities which will be agreed with them. Also, in addition to IFAD financing, there are finances expected estimated at USD 29 million and USD 105.75 million from GoK and PFIs respectively. There is a risk of other financiers not meeting their committed amounts.	Substantial	Moderate
Mitigations: To mitigate on risks of commingled funds and ease of accounting of any advance provided, funds will be held in Project dedicated accounts for which there will be monthly bank accounts reconciliation and financial reports. There will be one designated account held by the National Treasury at the Central Bank of Kenya (CBK) that would receive funds from IFAD which will have a corresponding dedicated project operational account in Kenya Shillings (Kshs). All partnering institutions that will receive funds from the PMU will sub-project accounts for segregating the funds received. The sub-project account will be denominated in local currency (KES) and will be opened in financial institutions acceptable to IFAD. There will be monthly financial reports to PMU for monitoring operations of sub-accounts and consolidation. All partnering institutions will sign MoU with Government of Kenya clearly highlighting the requirements for a separate bank account and financial reporting requirements. In order to mitigate on risk of other financiers not meeting their contributions, IFAD will continue to build strong relations with NT and partners and also monitor the flow of funds from NT to the Project to assess any deviations from the planned contribution.		
Project Internal Controls	***Substantial***	***Moderate***
Risk: There may be a risk that appropriate controls over Project funds are not in place, leading to the inefficient or inappropriate use of project resources.	Substantial	Moderate
Mitigations: Internal controls have been instituted in the whole framework of financial and administrative procedures. The identified controls range from; proper record keeping and posting, authorization of accounting, procurement and administrative documents, balancing and checking, physical security of assets, double signing (approval) arrangements, to financial reporting and monitoring. These are prescribed in PFM act and further detailed in the project implementation manual for the project. There will be internal audit function, as noted below, to check overall compliance to internal controls and provide support towards improving systems, procedures and processes.		

Project Accounting and Financial Reporting	***Substantial***	***Moderate***
Risk: There is a risk of delays in implementation of accounting system and full adoption of the same in accounting and generation of financial reports of the projects in line with IFAD requirements. There is a risks of delays in submission of R-CGS and GFF schemes financial performance reports as they will be provided by departments/ entities outside the PMU. Data for R-CGS financial performance will be obtained from the MSME-CGS management unit in the NT while the GFF financial performance reports will be aggregated by the selected GFF host institution and submitted to the NT/PMU periodically.	Substantial	Moderate
Mitigations: To mitigate on this, acquisition of the accounting system has proposed as a disbursements condition. The selection of project finance staff will also consider the agility to use computerized systems. To mitigate on the risks of delayed reporting for R-CGS and GFF schemes financial performance, the National Treasury/RK-FINFA will include the periodical financial reporting requirements of GFF to PMU/NT in the subsidiary financing agreement with the selected host institution. On annual basis, the GFF host institution will be required to include in their financial statements a specific disclosure note on GFF funds. Alternatively, the GFF host institution should provide annual financial statements for the GFF validated by their auditor. These should be provided at least six months after the end of GFF financial reporting period. In regards to R-CGS, the Financial Controller of the PMU will obtain periodical R-CGS financial statements prepared by the MSME-CGS management unit in the NT and share them with IFAD and other stakeholders on quarterly basis. On annual basis, the R-CGS will be audited by the Office of the Auditor General and audited financial statements submitted within six months after the end of financial year in accordance with the PFM Act of Kenya. These will be included in the financing agreement signed with NT.		
Project External Audit	***Moderate***	***Moderate***
Risk: There is a risk that independent and competent oversight of the Project financial statements is not in place or performed timely leading to delayed submission of financial reports and/or submission of unacceptable audit reports.	Moderate	Moderate
Mitigations: External Audit will be carried out by the Office of the Auditor General (OAG) and audited financial statements submitted to IFAD within six months after the period end in accordance with IFAD guidelines. OAG has also been carrying out audits of other IFAD projects and has been rated as satisfactory at the portfolio level based on performance on the other existing projects. There were however delays in submission of audit reports for the financial year 2018/19 due to the delays in appointment of the Auditor General who is the only person authorized by the constitution of Kenya to sign audit report. The Auditor General was selected in August 2020 and the backlog in audit was cleared. The audit reports for the financial year 2019/20 which were due in December 2020 were submitted in time.		
Project Procurement	**Moderate**	**Moderate**
Legal and Regulatory Framework	***Moderate***	***Moderate***
Risk: Risk(s): The key weaknesses of the Kenyan procurement system lie mainly at accountability and transparency of the processes. The corruption perception index score and existence of only one body with debarment authority are major shortcomings in the system. Standard bidding documents are in place for local shopping and NCB, but no bidding documents exist for ICB.	Moderate	Moderate

Mitigations: Mitigations: Procurement for two components in RK-FINFA will follow GoK procurement procedures in so far as they are consistent with IFAD guidelines. GoK bidding documents will be used except for ICB where IFAD bidding documents will be adopted. The project design defines the final implementing arrangements, which propose to include project procurement being carried out by third parties for Component 2 subject to a full due diligence being confirmed and a prior NO to implementing arrangements being submitted to IFAD. This arrangement would have a considerable impact on the risk assessment provided and would allow a lower overall risk rating		
Accountability and Transparency	***Moderate***	***Moderate***
Risk: Risk(s): The Country Corruption Perception Index score assigned by Transparency International is high at 31 (in a scale from 0 to 100). Country's Public Procurement Regulatory Authority is the sole authority for debarment. There exists a constitutional Ethics and Anti-Corruption Commission to handle corruption yet reported corruption cases are common.	Moderate	Moderate
Mitigations: Mitigations: RK-FINFA will adopt IFAD's accountability and transparency principles that aim to safeguard the integrity of project procurement and contract execution. The Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations shall apply to all RK-FINFA activities. Major parts of procurement will be carried out by co-investing implementation partners, which increase transparency and accountability. All IFAD self-certification forms will be adopted in their entirety.		
Capability in Public Procurement	***Substantial***	***Moderate***
Risk: Risk(s): The overall Government capacity of the NT proved to be less than optimal in the closed PROFIT programme, leading to overall slow procurement processes with major delays.	Substantial	Moderate
Mitigations: Mitigations: The project will hire a qualified procurement professional to handle all procurement activities in the PMU, while in cases where co-investing partners are delegated to carry out procurement activities, agreed methods and thresholds as well as the use of SPDs and IFAD's Handbook, will be detailed in the PIM. The two large investment instruments of RK-FINFA (R-CGF and GFF) do not involve procurement activities.		
Public Procurement Processes	***Moderate***	***Moderate***
Risk: Risk(s): Prior experience with GoK Implementing Agency shows long and cumbersome internal processes causing major delays in project implementation.	Moderate	Moderate
Mitigations: Mitigations: Processes will be led both by the Borrower through the lead agency, but risk will also be diversified by outsourcing the majority of procurement to relevant partners as assessed through a robust due diligence. All activities are advertised on a dedicated project website and the project will adopt IFAD's Contract Monitoring Tool (ICP) where all contracts will be posted.		
Environment, Social and Climate Impact	**Moderate**	**Low**
Biodiversity Conservation	***Moderate***	***Low***

Risk: Risk(s): Some of the project end beneficiary investments related to improving agricultural productivity e.g. increased use of agrochemicals, expansion of areas, water abstraction etc. may cause adverse effects on ecosystems services and biodiversity in their locations.	Moderate	Low
Mitigations: Mitigations: The criteria for accessing project financing includes environmental management considerations and the green finance will be targeted at activities that improve environmental and natural resources management. The end line investments made by the beneficiaries will be monitored by the PFIs through their ESMS.		
Resource Efficiency and Pollution Prevention	***Moderate***	***Low***
Risk: Risk(s): Some end line investments may result in sub-optimal use of agrochemicals, which may cause environmental pollution. Investments in post-harvest and processing facilities may also result in increased waste production and energy demands that would be met using diesel generators.	Moderate	Low
Mitigations: Mitigations: Efficient resource use will be ensured through awareness raising, training, and monitoring of investment activities. Green investments will be promoted including renewable energy products and improved waste management at post-harvest facilities.		
Cultural Heritage	***Substantial***	***Moderate***
Risk: Risk(s): Kenya has social cultural norms that perpetuate the unequal status of women through inter-locking factors, affecting poverty, discriminatory treatment in the family including inheritance, and public life and decision-making. Men and women in Kenya have equal ownership rights to property, however, customary practices vary. For example, women’s access to land ownership is at only about 5 per cent.	Substantial	Moderate
Mitigations: Mitigations: RK-FINFA will use the GALS methodology to facilitate women and men at household level to address structural power imbalances affecting women, and influence change of attitudes towards more equitable access and control of incomes, increase women participation in decision making and balanced workloads for households participating in the project. The TSIS capacity building activities support this process.		
Indigenous People	***Moderate***	***Low***
Risk: Risk(s): Kenya’s population is a composite of over 40 ethnic communities. While there are some specific issues that are pertinent to these communities, many of the issues are especially relevant to marginalized populations. However, the common denominator among Kenya’s excluded communities is poor access to resources and opportunities, insecurity of tenure and alienation from the state administration. Their weak voice in governance restricts their ability to address most of these issues and increases their vulnerability in the face of environmental, economic, and political problems.	Moderate	Low

Mitigations: Mitigations: The RK-FINFA gender, youth and social inclusion strategies consider all vulnerable groups and communities and will inform project strategies to ensure the inclusion of all in project interventions.		
Labour and Working Conditions	***Substantial***	***Moderate***
Risk: Risk(s): Women in Kenya generally fare worse than their male counterparts on most social and economic indicators, including wage equality, political participation, and literacy, although the situation is improving. Women are likely to work longer hours with less pay and mostly in agriculture and the informal sector. In addition, women bear the burden of child rearing and household and community chores due to unequitable gender roles. The majority of Kenyan women (over 70 per cent) are engaged in the agriculture sector but often on unpaid family basis. Women provide more than 80 per cent of the labour in food production and 50 per cent in cash crop production. Yet they hold only about 1 per cent of registered land titles in Kenya, and around 5 to 6 per cent of registered titles are held in joint names. Without title deeds, women are often unable to access cooperative membership, markets, and credit.	Substantial	Moderate
Mitigations: Mitigations: RK-FINFA has a Gender, Youth and Social Inclusion Strategy and it will monitor the access to and impact of financial products and services on target groups, together with key gender equality outcomes. These will include increased access to finance and services with tailored products for women, with a special focus on women-owned micro-businesses. At the same time, the project will contribute to more equitable workloads between household members; and participation of women in decision-making and leadership roles in project activities is encouraged. A large percentage of the training on business skills will target young women and men. Young women and men will be selected and trained as business coaches (ToTs) from the Counties and Wards. Business skills training will be delivered to the various groups through these ToTs.		
Community Health and Safety	***Low***	***Low***
Risk: Risk(s): Kenya's community health system faces resource constraints and inconsistencies around quality of services. This situation has increased with COVID-19, adversely affecting health outcomes. Communities experience insufficient infrastructure (e.g., health delivery structures). In addition, there are planning and implementation gaps common due to challenges of devolution, inadequate capacity, and inadequate sustained community engagement.	Low	Low
Mitigations: Mitigations: The COVID-19 experience has seen more efforts geared towards enhancement of community health and safety especially on Water, Sanitation and Hygiene. RK-FINFA and its implementing partners will seek to ensure that an appropriate COVID-19 response will be integrated through the project.		
Physical and Economic Resettlement	***Low***	***Low***
Risk: Risk(s): The project interventions will not result in physical or economic resettlement of project beneficiaries.	Low	Low
Mitigations: Mitigations: No mitigations are envisaged in this area.		
Greenhouse Gas Emissions	***Low***	***Low***

Risk: Risk(s): The project may cause result in GHG emissions albeit minimal from synthetic fertilizer use, dairy investments, and land clearing.	Low	Low
Mitigations: Mitigations: Capacity building and the advisory services can promote low emission technologies, agricultural practices, and disincentives for land clearing.		
Vulnerability of target populations and ecosystems to climate variability and hazards	***Low***	***Low***
Risk: Risk(s): The project is not expected to increase vulnerability of target beneficiaries and ecosystems in the geographic targeted areas.	Low	Low
Mitigations: Mitigations: The project is expected to enhance resilience of the target beneficiaries and the ecosystems particularly through the green investments.		
Stakeholders	**Substantial**	**Moderate**
Stakeholder Engagement/Coordination	***Substantial***	***Moderate***
Risk: Risk(s): Elite capture of the project resources due to skewed information availability on project services. PFIs operating in different target areas may apply different approaches for the project activities based on their own client selection policies.	Substantial	Moderate
Mitigations: Mitigations: Targeting approach will include criteria to ensure wider reach of the project activities for the intended beneficiaries. Clear rules of engagement and transparent monitoring and reporting systems for the PFIs including joint review and planning sessions with the PMU will provide fora for coordination that engenders adaptive project management.		
Stakeholder Grievances	***Moderate***	***Low***
Risk: Risk(s): Grievances registered by target beneficiaries and stakeholders may not be effectively addressed and corrective measures taken by the project due to lack of information or misinformation about the systems in place. Beneficiary grievance might escalate through litigation.	Moderate	Low
Mitigations: Mitigations: The project will utilise existing grievance redress mechanisms (GRM) and have a dedicated officer in the PMU that will be responsible to ensure recorded grievances are addressed. Stakeholders will be informed about the GRM during project sensitization sessions.		

Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 10: Exit Strategy

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East and Southern Africa Division
Programme Management Department

ANNEX 10: RK-FINFA SUSTAINABILITY AND EXIT STRATEGY

Component 1: Technical Support and Innovation Services (TSIS)

The RK-FINFA Component 1, TSIS, comprises two subcomponents: 1.1 PFI Capacity Building for Rural Outreach and Innovation, and 1.2 Business Development Services (BDS) for Agribusinesses and Smallholders. For both subcomponents, the exit strategy includes two aspects:

A. Sustainability of investments supported by TSIS. Firstly, the key result of the successful implementation of TSIS is the sustainability of the investments through R-CGS and GFF resources. The services will support PFIs to improve their capacities for long term sustainable increase and improvement of rural financial services and ensure that the MSMEs and smallholder farmers involved in the utilization of RK-FINFA resources will have the required capacities to plan and sustainably operate the investments. Furthermore, TSIS will introduce specific capacities and monitoring framework, to ensure that investments environmentally sustainable in view of natural resource management and changing climatic conditions. Also, a targeted grass roots technical service package is deployed for Financial Literacy, which will support long term financial sustainability of the livelihoods among smallholder communities.

Therefore the primary exit strategy element of the TSIS is the long-term continuation of the developed rural financing models by PFIs and sustainability of the investments towards rural production operations by smallholder farmers and MSMEs. See more below at Component 2 Exit Strategy.

B. Sustainability of TSIS service models. Secondly, the TSIS services, including TA to PFIs, and the TA to MSMEs and smallholder farmers, also have an inherent aim of sustainability of the service model. The programme will primarily utilize local partners to implement the TSIS, with the exit strategy that these partners will continue to offer similar services after the end of the project, and that the service users continue to utilize the services. To ensure this, the services need to be comparable with the highest quality available in the markets, reasonably priced, and offer meaningful solutions to the development of rural finance private sector actors.

The TSIS service providers will be competitively selected by the end users (PFIs, MSMEs, smallholder groups), and co-financed to the extent possible in the various categories (Smallholder, MSME, SACCO, MFB, Commercial Bank). The objective is that private sector groups increasingly 'own' the purchase of Technical Support Services while the public sector and DP financing is gradually reduced. The most successful TSIS service packages will be strengthened towards a demand-driven commercial business model, for which costs can be covered by the PFIs and/or MSMEs, depending on the package.

This type of graduated model enables sustainable and larger scale TSIS after and beyond the resources made available by the project. The services will be cascaded in larger number of private sector groups and local communities through the local partners that organize new training programmes and run additional sessions.

Component 2: Rural Investment Instruments

The exit strategy of RK-FINFA's 's core investment instruments is in-built in the design of the R-CGS and the GFF. Both facilities operate through structures, which are planned to continue to operate and support rural finance intermediation after the RK-FINFA operations close, and the IFAD financial contribution continue to support the operations of the two facilities even after the RK-FINFA 6-year project period.

Sub-Component 2.1: Rural Credit Guarantee Scheme

The R-CGS will build on PROFIT's Risk Sharing Scheme experiences and institution building at the National Treasury (NT). In particular, based on PROFIT lessons, the NT in 2020 institutionalized its guarantee tool by establishment of the public MSME Credit Guarantee Scheme (MSME-CGS), which was recorded as success for PROFIT. The MSME-CGS is now a part of the strategic COVID-19 response framework of the GoK and receives concerted technical and financial support from the World Bank, FSDK, USAID, as well as from IFAD for its rural aspects. The MSME-CGS is established and regulated through the GoK's Public Finance Management Regulations for the Credit Guarantee Scheme, 2020.

The MSME-CGS has an appropriate, fully operational framework, suitable for the RK-FINFA's rural R-CGS. It has detailed management guidelines ("Operational Manual - MSME Credit Guarantee Scheme"), developed with the World Bank support based on global best practices. MSME-CGS is operated by dedicated and already operational MSME-CGS management unit in the National Treasury. The Unit is appropriately staffed, housed at the National Treasury Division of Financial and Sectoral Affairs, and operates a digital progress monitoring system connected to the MISs of the PFIs.

The RK-FINFA R-CGS will be established as a special rural window of the GoK MSME-CGS, with investment resources from the IFAD RK-FINFA loan and from GoK. To enable this, it has been agreed that selected aspects of the MSME-CGS regulations will be adjusted to allow efficient functioning of the special rural window. The adjustments will be established and regulated by "The R-CGS Addendum of the MSME-CGS Operational Manual".

With the above set-up, based on an already functional facility in the NT, the rural guarantee window would operate for decades after the end of the RK-FINFA 6-year project period and continue to encourage rural and agricultural investments of the FIs. The losses of the RK-FINFA-provided guarantee amount (US$ 20 million) due to justified claims by PFIs is calculated at 4 per cent per year, based on experiences from similar schemes from Africa. It should be noted that the plans to compensate these outflows from the guarantee scheme are well progressed, including the significant contribution from the WB's new SAFER project and from the confirmed additional allocations from the GoK state budget.

As a part of sustainability and exit strategy for the guarantee operations, the GoK plan is to convert the MSME-CGS into a Credit Guarantee Company during the RK-FINFA implementation period. The World Bank has indicated potential technical assistance support as well as a significant capital investment into the CGC, with the condition that CGC will be established as an independent incorporated legal entity, capitalized through both public and private investments. RK-FINFA will pro-actively work with the NT to ensure that the specific aspects and requirements of the rural finance window will be appropriately incorporated into the management structure and operations of the proposed guarantee company. The plan for the guarantee company using both private and public guarantee finance is fully in line with IFAD's policies on the way forward for increased rural finance intermediation.

Sub-Component 2.2: Green Financing Facility (GFF)

The GFF will be established as a permanent facility to provide wholesale capital to rural oriented SACCOs and MFBs/MFIs, for on-lending to the smallholder sub-sector and rural micro-enterprises. The RK-FINFA budget will provide the start-up capital for the wholesale operations. On the medium term, a key target is to pro-actively increase the capital base of the GFF through additional investments (grants or loans) by other development-oriented financiers with a green agenda, to achieve larger GFF outreach and impact. During the RK-FINFA design process, various potential candidates to support the scaling up of the GFF operations have been identified.

The GFF will be hosted in a registered financial institution that best meets the eligibility criteria for the host institution as defined in (a) the PIM of RK-FINFA and (b) the GoK regulations concerning the on-lending of public funds. A number of leading commercial banks (including the Co-operative Bank, Equity Bank, and ABSA) as well as the government-owned AFC have expressed their tentative interest to host the GFF, as the GFF objectives are in line with their own development vision. Furthermore, the Non-Sovereign Operations window of IFAD can serve as entry points to create a private sector window into the GFF with the condition that a private sector financial institution will be identified as a GFF host institution. The selection of the host institution will be finalised after the approval of the RK-FINFA financing package by the GoK and IFAD.

The GFF is designed as a permanent facility to support the mainstreaming of green lending by Kenyan PFIs. This financing support would continue for a long period after the end of the RK-

FINFA loan period. To ensure the sustainability of the funding, the GFF finances will be both at the Host and PFI level adequately ring-fenced from other operations and finances of the implementing institutions, to enable effective fund utilisation, control, and reporting. Importantly for the exit strategy and as a key factor for sustained operations, the credit risk in the lending will be 100% with the participating financial institutions. Only their collapse as financial institutions would result in the reduction of the financial base of the GFF. The danger of collapses of this type can be considered as very limited, as all the wholesale borrowing PFIs are effectively supervised either by the Central Bank of Kenya (the MFBs) or by SASRA (SACCOs). This fact and the substantial interest expressed by other international financiers towards this green financing operation auger well not only for the sustainability of operations but for substantial medium and long-term growth of the operational volumes of the GFF.

Sub-Component 3.1: Enabling Rural Finance Environment

The policy and institutional support operation under Sub-component 3.1 will aim to ensure that particularly the smaller FIs such as MFBs/MFIs and SACCOs would on a sustained basis be integrally linked to the financial sector, its support services and its regulatory and supervisory network. For a focused and effective RK-FINFA approach, the relatively limited project resources allocated to Sub-component 3.1 will largely be directed to the development of institutional arrangements that support the medium and longer-term development of a more conducive operational environment for the Rural Credit Guarantee Scheme and the Green Financing Facility, to improve rural financial intermediation through their increased outreach and impact. ***Therefore, a key result of the successful implementation of Sub-component 3.1 activities will be the support to the sustainability of the R-CGS and GFF operations and to their successful exit after the RK-FINFA project period ends***.

In particular, this sub-component aims to achieve long-term results in the form of a more effective integration of smaller FIs with rural orientation, such as MFBs and rural DT-SACCOs, to the financial system and its support services. A key target is to up-grate the regulatory and supervisory status of these institutions to a level that enables them to systematically take part in linkages with the liquid Kenyan commercial banks. This would sustainably increase their rural outreach and impact among the target group of RK-FINFA and in this manner contribute to the exit strategy and sustainability targets of the project.

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Rural Kenya Financial Inclusion Facility

Project Design Report

Annex 11: Mainstreaming themes – Eligibility criteria checklist

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Mainstreaming themes – Eligibility criteria checklist				
	☐ **Gender transformational**	☑ **Youth sensitive**	☐ **Nutrition sensitive**	☑ **Climate finance**
Situation analysis	☐ National gender policies, strategies and actors ☐ Gender roles and exclusion/discrimination ☐ Key livelihood problems and opportunities, by gender	☑ National youth policies, strategies and actors ☑ Main youth groups ☑ Challenges and opportunities by youth group	☐ National nutrition policies, strategies and actors ☐ Key nutrition problems and underlying causes, by group ☐ Nutritionally vulnerable beneficiaries, by group	
Theory of change	☐ Gender policy objectives (empowerment, voice, workload) ☐ Gender transformative pathways ☐ Policy engagement on GEWE	☑ Pathways to youth socioeconomic empowerment ☑ Youth employment included in project objectives/activities	☐ Nutrition pathways ☐ Causal linkage between problems, outcomes and impacts	
Logframe indicators	☐ Outreach disaggregated by sex ☐ Women are > 40% of outreach beneficiaries • IFAD empowerment index (IE.2.1)	☑ Outreach disaggregated by sex and youth	☐ Outreach disaggregated by sex and youth, and IPs (if appropriate) • Output level CIs ◦ CI 1.1.8 Mandatory Outcome level CIs (at least one of below) ◦ CI 1.2.8 ◦ CI 1.2.9	
Human and financial resources	☐ Staff with gender TORs ☐ Funds for gender activities ☐ Funds for IFAD empowerment index in M&E budget	☑ Staff with youth TORs ☑ Funds for youth activities	☐ Staff or partner with nutrition TORs ☐ Funds for nutrition activities	IFAD Adaptation Finance $12,772,000 IFAD Mitigation Finance $0 Total IFAD Climate-focused Finance $12,772,000

ECG Remarks	**Gender** RK-FINFA meets the criteria to be gender transformational through the required pathways (i) Women economic empowerment by offering access to finance through the Rural Credit Guarantee Scheme (R-CGS) and the Green Financing Facility (GFF), which will target 50 per cent women, (ii) Enhance women participation in decision-making and leadership through gender sensitive financial literacy trainings and include quotas for women participation in project activities and (iii) promote balanced and reduced workloads through access to Green Financing Facility, where women will be supported to prepare investment plans for adoption of new smart technologies, energy and labour saving solutions such as renewable energy kits, water harvesting and storage systems. **Nutrition** RK-FINFA is not considered as nutrition sensitive but it seeks to contribute to increased household food security and consumption of nutritious foods and will contribute to nutrition outcomes in the following ways: (i) Increased access to finance and proactive assets, increased income generation, will increase consumption of nutrient-rich and nutritious foods, such as fruits and vegetables; and increase consumption of animal-sourced foods among small holder households ii) Women's access to education, empowerment and control over resources will improve nutrition outcomes not only for women themselves, but for their families and communities at large and iii) Access to new smart technologies, energy and labour saving solutions such as post-harvest technologies will improve nutrition outcomes. **Youth** RK-FINFA is considered youth sensitive. It will support creation of jobs by and for young people and increasing their employment opportunities along the different value chains through increased access to finance, access to financial literacy and business development skills, support youth participation and representation and use of digital financial solutions to increase reach to rural youth. ☐ No social inclusion themes