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IFAD
Investing in rural people

President's report

Proposed loan

Republic of Kenya

Rural Kenya Financial Inclusion Facility

Project ID: 20000003431

Note to Executive Board representatives

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For: **Approval**

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Abbreviations and acronyms

BDS	Business Development Services
GFF	Green Financing Facility
MFB	microfinance bank
MSMEs	micro, small and medium-sized enterprises
NT&P	National Treasury and Planning
PFI	participating financial institution
PIM	Project Implementation Manual
PMU	project management unit
RCGS	rural credit guarantee scheme
RK-FINFA	Rural Kenya Financial Inclusion Facility
SACCO	Savings and Credit Cooperative Organization

Map of the project area

IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 17-05-2021

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Kenya
Executing agency:	National Treasury and Planning
Total project cost:	US$134.05 million
Amount of IFAD loan 1:	EUR 6.24 million (equivalent to approximately US$7.26 million)
Terms of IFAD loan 1:	Loan 1 will be granted on highly concessional terms and will be free of interest but will be subject to a fixed service charge, to be determined by the Fund at the date of loan approval by the Fund's Executive Board, payable semi-annually in the loan service payment currency. The loan will have a maturity period of 40 years, including a grace period of 10 years, starting from the date of Board approval of the loan. The principal of the loan will be repaid at 4.5 per cent of the total principal per annum for years 11 to 30 and 1 per cent of the total principal per annum for years 31 to 40.
Amount of IFAD loan 2:	EUR 12.66 million (equivalent to approximately US$14.74 million)
Terms of IFAD loan 2:	Loan 2 will be granted on blend terms and will be subject to interest on the principal amount outstanding and a service charge to be determined by the Fund at the date of loan approval by the Fund's Executive Board. The interest rate and service charge will be fixed for the life cycle of the loan and payable semi-annually in the loan service payment currency. The loan will have a maturity period of 25 years, including a grace period of 5 years, starting from the date of Board approval of the loan. The principal of the loan will be repaid in equal instalments.
Grant contributions of non-governmental organizations:	US$2.3 million
Leveraged loans by participating financial institutions:	US$85.75 million
Contribution of borrower/recipient:	US$ 24 million
Contribution of beneficiaries:	N/A
Financing gap:	No financing gap
Amount of IFAD climate finance:	US$12.77 million

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 47.

I. Context

A. National context and rationale for IFAD involvement

National context

1. Over the past 10 years, the Republic of Kenya's economy has grown rapidly. Average GDP growth from 2010 to 2019 was 5.85 per cent. This growth was supported by a friendly business climate, strong public infrastructure spending and increased regional trade. However, sustaining the growth levels achieved will be a challenge for Kenya, especially after the impact of COVID-19. Indeed, while the economy has performed generally well, public debt has increased rapidly and currently surpasses the standard risk levels. Since early 2020, Kenya's economy has been hit hard by COVID-19, as containment measures have dampened economic activity. The fact that a significant proportion of the population is expected to be vaccinated only in 2024 suggests a scenario in which the economic and social impacts of COVID-19 will continue over the medium term and possibly the long term, thus persisting over much of the planned Rural Kenya Financial Inclusion Facility (RK-FINFA) project implementation period.

Special aspects relating to IFAD's corporate mainstreaming priorities

2. In line with Eleventh Replenishment of IFAD's Resources (IFAD11) mainstreaming commitments, the project has been validated as:

☒ Including climate finance; and
☒ Youth-sensitive.

3. **Environment and natural resources.** In Kenya, rural livelihoods are dependent on natural resources and the environment. Halting and reversing degradation trends requires investments in environmentally friendly technologies and increased efficiency in resource use across economic sectors, as articulated in Kenya's Green Economy Strategy and Implementation Plan (GESIP) 2016–2030.

4. **Climate change.** Climate shocks, such as floods and droughts, are projected to become more frequent and intense as a result of climate change, adversely impacting rural livelihoods and economic activities in Kenya. Financial services offered at reasonable prices and on fair terms can help vulnerable households prepare for and improve their ability to manage and recover from climate shocks.

5. **Gender equality and women's empowerment.** Kenya ranked at 109 out of 153 countries on the World Economic Forum's Global Gender Gap Report 2020, with a score of 0.671.[1] Nevertheless, sociocultural norms and attitudes continue to disadvantage female farmers and entrepreneurs in the rural sector.

6. **Youth.** Kenya's population is largely young: 35.7 million Kenyans (75.1 per cent) are under the age of 35 years. This potential demographic dividend is yet to be fully harnessed, however, with the youth unemployment rate exceeding the overall unemployment rate in Kenya.

Rationale for IFAD involvement

7. The visions of the Government of Kenya and of IFAD call for development and transformation of the rural sector in a sustainable manner, for which purpose private sector financial institutions, including banks and non-bank financial

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

institutions will need to play a central role in financing the rural transformation process. Financial institutions need to be persuaded to expand the volume and outreach of their agricultural and rural operations. The proposed RK-FINFA will help to ensure that appropriate and adequate financial services are available for the planned transformation and growth of the rural economy in Kenya. In the wake of COVID-19, the need for this strategic support is even greater. At the same time, to respond to the Government's and IFAD's agendas on climate change adaptation/mitigation and to improve efficiencies in the use of natural resources, RK-FINFA will proactively encourage the mainstreaming of green finance activities in order to sustainably transform the rural sector in Kenya.

B. Lessons learned

8. **Lessons learned.** The key lessons for the design of RK-FINFA from past and ongoing IFAD-supported operations can be summarized as follows: (i) the provision of technical support services to participating financial institutions (PFIs) should start immediately after PFI selection; (ii) eligibility criteria for supported operations should be carefully articulated to all stakeholders at project start-up; (iii) particular emphasis should be placed on monitoring and reporting, using information technology-based monitoring and information system solutions, supported by regular field verification visits; (iv) implementing partners must have adequate capacity and assigned institutional roles for rural finance instruments, particularly in the case of green finance operations; and (v) appropriate flexibility in implementation should be allowed for different types of financial institutions.

II. Project description

A. Objectives, geographical area of intervention and target groups

9. **Goal and development objective.** RK-FINFA's project goal is to promote poverty reduction and foster climate change resilience and improved livelihoods in rural areas. The project development objective is to increase 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 and women and youth.

10. **Project area.** The geographic coverage of RK-FINFA, once fully operational, will be nationwide. For an effective project start-up, the entry point for RK-FINFA outreach will be the 14 counties in which at least two IFAD-supported projects are operating with agricultural value chains. With this approach, RK-FINFA and its PFIs will benefit from synergies with ongoing IFAD-supported agriculture and agribusiness development activities on diversified value chains. After the RK-FINFA capacity-building and initial financing cycle of two years, the PFIs will be able to expand their targeted area of investment 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.

11. **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 and micro, small and medium-sized enterprises (MSMEs), including an estimated 66,000 economically active smallholder households and 2,000 rural MSMEs engaged in smallholder-inclusive value chains. Indirect outreach of the project will include: (i) an estimated 32,000 persons, through employment in the RK-FINFA supported agribusinesses and farms; and (ii) 90,000 smallholder households, through participation in the value chains strengthened by the supported agribusinesses. The targeting focus is

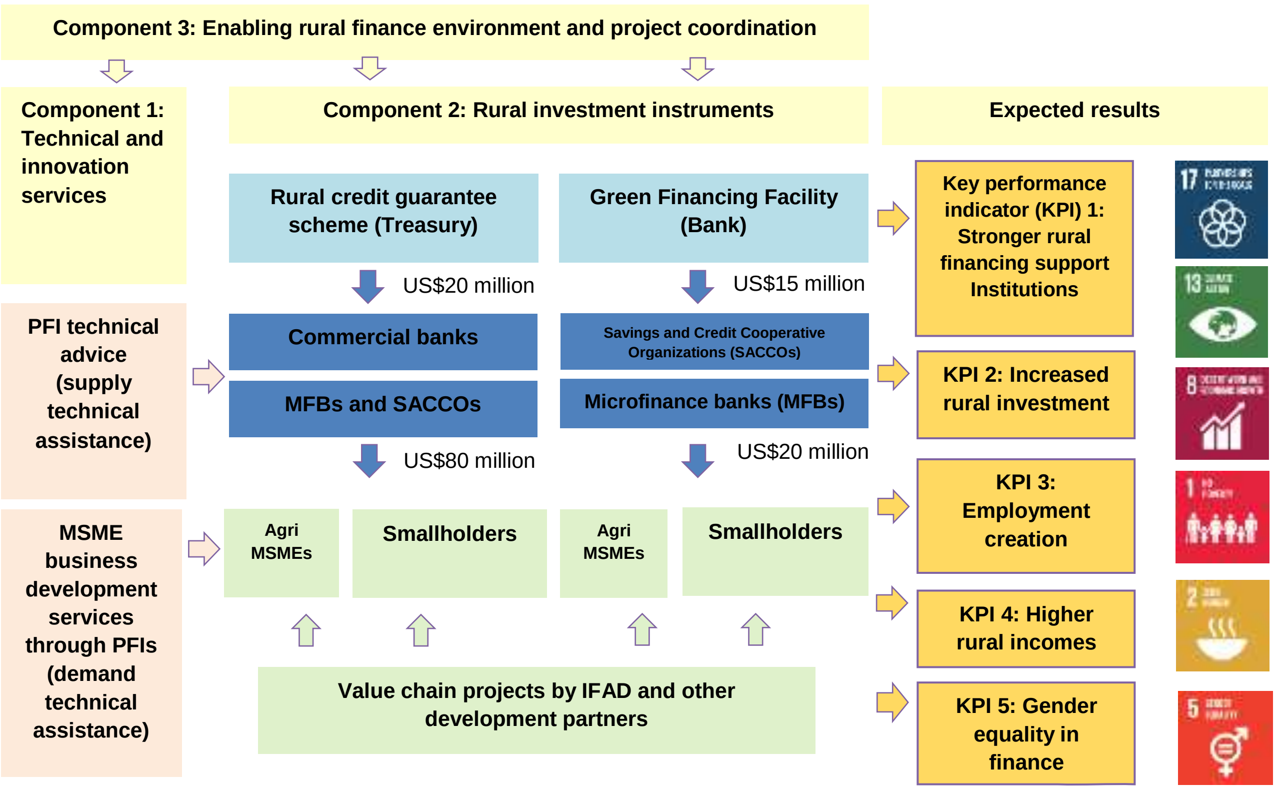
on low-income, economically active rural households, with specific targets of 50 per cent participation by women and 30 per cent by youth.

12. The RK-FINFA design provides comprehensive strategies and guidelines for poverty, gender and youth targeting. The project's poverty targeting is based on a smallholder-inclusive value chain focus combined with geographic targeting, which together will ensure outreach to poor households. The gender strategy builds on three key elements: (i) women's economic empowerment and access to tailored financial products; (ii) women's leadership; and (iii) balanced workloads in households. The youth targeting builds on (i) development of youth-specific financial products; (ii) youth capacity-building for business skills and financial literacy; and (iii) partnerships with PFIs and other private sector players with youth-focused business strategies.

B. Components, outcomes and activities

13. The project will have the following components: (i) technical support and innovation services; (ii) rural investment instruments; and (iii) enabling rural finance environment and project coordination, as shown in figure 1 below.

Figure 1
Project components and expected results



14. **Component 1: Technical support and innovation services (TSIS).** Through two fully interlinked subcomponents, PFI capacity-building and Business Development Services (BDS) for smallholders and MSMEs, component 1 will: (i) strengthen 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 TSIS, supply and demand, will be embedded into the rural growth strategies of PFIs to foster sustainability and effective use of the resources provided through the project investment instruments. A cofinancing partner organization or organizations will be engaged to coordinate the TSIS component.

15. **Component 2: Rural investment instruments.** RK-FINFA will operate with two rural investment instruments: (i) a rural credit guarantee scheme (RCGS), and (ii) a Green Financing Facility (GFF). Both the RCGS and the GFF will be designed as sustainable financing vehicles that can utilize resources from the Government and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector on attractive market terms through Kenyan financial institutions.

16. **Subcomponent 2.1: RCGS.** The strategy of the RCGS will be to provide risk sharing to promote rural outreach innovations and catalyze funding from Kenyan mainstream financial institutions into the rural and agriculture sector. Supported by the RCGS guarantee amount of US$20 million from IFAD and the Government of Kenya, the PFIs are expected to lend US$80 million to rural MSMEs and smallholders in agriculture value chains, including women- and youth-owned enterprises. The RCGS will be established as part of an existing MSME credit guarantee scheme, hosted and managed by the National Treasury and the Central Bank of Kenya; the scheme has received technical assistance and seeks additional support from a coalition of international partners.

17. **Subcomponent 2.2: GFF.** This subcomponent will support the innovative and sustainable transformation of Kenya's rural economy, through the operations and services of the GFF, to be established with the US$15 million support for RK-FINFA to be provided by IFAD and the Government of Kenya. The GFF will contribute to sustainable rural transformation, growth and income generation through two fully interlinked methods: (i) alleviating the liquidity constraints of non-bank financial institutions that are the main financial service providers to smallholders and rural microenterprises; and (ii) encouraging small-scale farmers and micro-firms to invest in climate-smart and environmentally friendly activities. The GFF will be established as a permanent facility at a selected host financial institution to provide wholesale capital to rurally oriented Savings and Credit Cooperative Organizations (SACCOs) and microfinance banks (MFBs)/microfinance institutions for onlending to smallholders and rural microenterprises, targeting 50 per cent women and 30 per cent youth. The GFF host institution will be selected against standard financial performance criteria and specific capacity requirements for wholesale lending and green rural finance.

18. **Component 3: Enabling rural finance environment and project coordination.** Component 3 comprises two subcomponents. The aim of subcomponent 3.1 (enabling rural finance environment) is to promote policies and institutional arrangements that support the development of a more conducive operational environment for the RCGS and the GFF, thereby fostering their capacity to improve rural financial intermediation. Subcomponent 3.2 (project coordination) covers the project implementation and coordination arrangements.

C. Theory of change

19. The development challenge that RK-FINFA addresses is that limited productive investment is hindering modernization and improved incomes in the smallholder and agribusiness sectors, despite high development potential and significant progress on rural livelihood development, poverty reduction and climate change resilience. Three identified underlying causes for this development problem are: (i) an information and communication gap between the financial sector and the agribusiness sector owing to capacity constraints; (ii) high perceived risk and real risk of financing smallholder and agribusiness sectors; and (iii) limited access to liquidity by rural MFBs and SACCOs, the last-mile financial service providers, particularly to commit resources for new innovative approaches such as green finance.

20. RK-FINFA will provide solutions to each of these three underlying problems through the interventions outlined above in the project component descriptions. The

provision of project support for wider and innovative rural financial intermediation will set in motion a positive growth cycle that will effectively support the key target of transformation of the rural economy. In particular, the project development objective is to achieve increased rural financial inclusion and green investments by agriculture value chain stakeholders.

D. Alignment, ownership and partnerships

21. RK-FINFA is fully in line with the core priorities of the Government and IFAD in rural and agricultural development and transformation and with Sustainable Development Goals 1 (no poverty), 2 (zero hunger), 5 (gender equality), 8 (decent work and economic growth), 13 (climate action) and 17 (partnerships for the goals). Furthermore, the project's support to green financing is directly in line with Kenya's 2020 Nationally Determined Contribution under the Paris Agreement, the Kenya Climate Change Act 2016 and Kenya's GESIP. Largely because of RK-FINFA's potential to efficiently channel private sector funds to green investments, a number of international financiers have expressed interest in providing additional financial and/or technical support to scale up the RK-FINFA operations. These include the European Investment Bank, KfW Development Bank, the Green Climate Fund and potential bilateral partners.

E. Costs, benefits and financing

Project costs

22. The total RK-FINFA costs for the planned six-year project period (2022–2027) are estimated at approximately US$134.05 million. RK-FINFA climate finance is estimated at US$12.77 million, which is 58 per cent of total IFAD project costs. The cost of implementing the environment and social management framework (ESMF) are estimated at approximately US$466,000.

23. The breakdown of costs in United States dollars by component and financier is shown in table 1 below. Table 2 shows the breakdown of costs by expenditure category and financiers. Table 3 shows costs by component and year.

Table 1
Project costs by component and subcomponent and financier
(Thousands of United States dollars)

	IFAD loan		*Private finance institutions*		*Partner institutions*		*Government*		*Total*	
Component/subcomponent	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Technical support and innovation services										
1.1. PFI capacity-building	2 586	53	315	6	750	15	1 250	26	4 900	4
1.2. BDS for smallholders and MSMEs	1 310	39	423	13	750	22	867	36	3 350	3
Subtotal	3 896	47	737	9	1 500	18	2 117	26	8 250	6
2. Rural investment instruments										
2.1. RCGS										
Guarantee amount	5 000	25					15 000	75	20 000	15
Leveraged amount			80 000	100					80 000	60
Subtotal	5 000	5	80 000	80			15 000	15	100 000	75
2.2. GFF	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
3. Enabling rural finance environment and project coordination										
3.1. Enabling rural finance environment	904	39			800	35	596	26	2 300	2
3.2. Project coordination	2 200	63					1 300	37	3 500	3
Subtotal	3 104	54			800	14	1 896	33	5 800	4
Total	**22 000**	**16**	**85 750**	**64**	**2 300**	**2**	**24 000**	**18**	**134 050**	**100**

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD loan		*Private finance institutions*		*Partner institutions*		*Government*		*Total*	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Investment Costs										
A. Equipment and materials	20	76	-	-	-	-	7	25	27	-
B. Trainings	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	15 000	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**
2. 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 3
Project costs by component and subcomponent and project year (PY)
(Thousands of United States dollars)

	Total (including contingencies)						
	PY1	*PY2*	*PY3*	*PY4*	*PY5*	*PY6*	*Total*
Component/subcomponent	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*
1. Technical support and innovation services							
1.1. PFI capacity-building	956	956	956	956	775	300	4 900
1.2. BDS for smallholders and MSMES	570	570	570	570	970	-	3 350
Subtotal	1 526	1 526	1 526	1 626	1 745	300	8 250
2. Rural investment instruments							
2.1. RCGS							
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
2.2. GFF	5 000	5 000	5 000	-	-	-	20 000
Subtotal	17 500	30 000	30 000	37 500	-	-	120 000
3. Enabling rural finance environment and project coordination							
3.1. Enabling rural finance environment	200	550	500	400	350	300	2 300
3.2. 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**

Financing and cofinancing strategy and plan

24. Of the total US$134 million RK-FINFA budget, under the Transition Framework phasing-in/phasing-out approach, the two IFAD loans are projected to finance EUR 18.9 million, equivalent to approximately US$22 million, from the IFAD11 performance-based allocation, accounting for 17 per cent of the total project costs. Cofinancing from PFIs is estimated at US$85.75 million, covering 64 per cent of the total project costs, including (i) US$80 million mobilized, through the RCGS of US$20 million, with an expected four-times leverage; (ii) cofinancing of US$5 million for the GFF investments; and (iii) US$737,000 in cofinancing of TSIS costs. The Government's contribution is budgeted to be US$24 million in cash and in-kind, covering 18 per cent of the total project costs. The share of cofinancing from non-governmental implementing partners is projected at US$2.3 million, or 2 per cent of the project costs.

Disbursement

25. The main disbursement categories are for guarantee funds and credit, which together account for 68 per cent of the IFAD financing. Other main expenditure categories are for goods, services and inputs, training and recurrent costs, the latter accounting for 2 per cent of overall project costs. The breakdown of expenditure by disbursement category, financier and year is shown in tables 1, 2 and 3. A designated account, held by the National Treasury at the Central Bank of Kenya, will receive funds from IFAD. All partnering institutions that will receive funds from the project management unit (PMU)will keep project sub-accounts in order to segregate the funds received. A report-based disbursement approach is planned.

Summary of benefits and economic analysis

26. Nineteen illustrative farm/enterprise models were developed as part of the project design to examine how potential actors would benefit from improved financial outreach and the related efficiencies. All models were found to be 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 per cent. The benefit cost ratio of 2.38 indicates a return of US$2.38 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 economic net present value is greater than zero.

Exit strategy and sustainability

27. The RK-FINFA exit strategy is an integral part of the design of the project’s instruments. Component 1 (TSIS) aims at long-term continuation of the supported rural financing models by the PFIs, the sustainability of the smallholder and MSME investments and commercial viability of the service models. The investment instruments of component 2, both the RCGS and the GFF, will be operated through permanent facilities which are planned to continue to operate and support rural finance intermediation for a long time after the RK-FINFA operations close. For subcomponent 3.1 (enabling rural finance environment), the key result and exit strategy will be the sustainability of the RCGS and GFF operations during and beyond the RK-FINFA project period.

III. Risks

A. Risks and mitigation measures

28. A detailed presentation of project risks and their mitigation measures is provided in appendix III (integrated project risk matrix). Key projected risks are linked to potential shocks to the economy and the environment and to issues related to implementation capacity. Table 4 presents a summary of inherent and residual risks.

Table 4
Risks and mitigation measures
(Overall risk summary)

Risks	*Inherent risk rating*	*Residual risk rating*
Country context	Substantial	Moderate
Sector strategies and policies	Substantial	Moderate
Environment and climate context	Substantial	Moderate
Project scope	Moderate	Low
Institutional capacity for implementation and sustainability	High	Moderate
Financial management	Substantial	Moderate
Project procurement	Substantial	Moderate
Environment, social and climate impact	Substantial	Moderate
Stakeholders	Moderate	Moderate
Overall	**Substantial**	**Moderate**

B. Environment and social category

29. The environment and social categorization of the RK-FINFA is B, based on the application of IFAD's Social, Environmental and Climate Assessment Procedures. This categorization recognizes that the environmental and social risks that may result from the project activities, particularly the end-line investments by the smallholders and MSMEs, can be avoided and/or minimized through appropriate actions. The RK-FINFA ESMF includes measures to be adopted by the MSMEs and the smallholders, supported by the necessary capacity-building.

C. Climate risk classification

30. 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 outbreaks of pests and disease. These climate-related events have already adversely impacted agricultural productivity for smallholders and profitability for agribusinesses. Accordingly, under RK-FINFA, climate change projections will be taken into account in conducting due diligence for medium- and long-term investments. Climate risk screening will be incorporated into the environmental and social management system for the PFIs and into the environment, social and governance standards for the MSMEs.

D. Debt sustainability

31. Kenya was assessed by the International Monetary Fund and the World Bank's International Development Association as being at high risk of debt distress in May 2020. Planned fiscal consolidation is expected to help address debt vulnerabilities, which have been exacerbated by the global COVID-19 shock; however, the risk of debt distress continues to be assessed as high.

IV. Implementation

A. Organizational framework

Project management and coordination

32. 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 will be established, with representatives from the ministries, public agencies and apex representative organizations of the relevant private sector stakeholders. Under the project steering committee, a dedicated PMU will be housed in the Financial and Sectoral Affairs Department within the NT&P. The key investment components and subcomponents are to be implemented by intermediaries or investing partner institutions.

Financial management, procurement and governance

33. A designated account held by the National Treasury at the Central Bank of Kenya will receive funds from IFAD. All partnering institutions that will receive funds from the PMU will keep project sub-accounts in order to segregate the funds received. The RCGS funds, after required conditions are met, will be deposited and ring-fenced at the Central Bank of Kenya. The guarantee reserve will be accessible to PFIs only after possible losses materialize and have been reported and approved. The GFF funds will be transferred to the host financial institution after required conditions are met.

34. There will be monthly financial reports to the PMU for monitoring operations of sub-accounts and consolidation. Financial reporting will include two separate reporting streams, namely: (i) an overall project financial report; and (ii) a separate report on the financial performance of the RCGS and GFF schemes. GFF financial performance reports will be aggregated by the selected GFF host institution and submitted to the PMU periodically. The National Treasury and RK-FINFA will enter into a subsidiary financing agreement with the selected host institution, which will include requirements for the submission of interim and annual financial reports to the PMU. Disbursements of funds to the RCGS, the GFF host institution and any other implementing partners will be made in tranches after the agreed terms and conditions specified in the subsidiary agreements and/or memorandums of understanding have been met.

35. Detailed management guidelines for RK-FINFA are laid out in the Project Implementation Manual (PIM).

36. The National Treasury internal auditors are under the direct supervision of the Internal Auditor General at the National Treasury. The Internal Audit Department reports to the Audit Committee of the Ministry, which is required to meet on a quarterly basis. The audit committee members are independent of the Ministry and are appointed in accordance with the Public Finance Management Act 2012. The PMU finance staff will regularly carry out financial monitoring reviews at the implementing agencies, which will serve to ensure that expenditures are made and supported as expected and that further capacity-building is provided in any areas of weakness that may be noted. RK-FINFA will be audited on an annual basis by the Office of the Auditor General, and audited financial statements will be submitted to IFAD within six months after the end of the financial year, in accordance with the Public Finance Management Act of Kenya and IFAD's audit guidelines.

37. Concerning procurement, in its design phase, the project scores an inherent low procurement-related risk of 2.69. However, in practice, both implementation and compliance with national systems and with IFAD's procurement requirements have been weak in the past, and mitigation actions that would normally apply to a medium-risk project, rather than a low-risk one, will therefore apply in this case. While some procurement activities will be carried out by the PMU within the National Treasury, most procurement will be done by PFIs and other co-investing partners. All necessary measures will be taken to ensure that their procurement 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.

Project target group engagement and feedback and grievance redress[2]

38. Target group engagement will occur at different levels, encompassing the PFIs and end beneficiaries. PFI engagement will occur through sensitization and periodic monitoring sessions and review of reports. Channels of communication between

[2] See *Framework for Operational Feedback from Stakeholders: Enhancing Transparency, Governance and Accountability*, https://webapps.ifad.org/members/eb/128/docs/EB-2019-128-R-13.pdf?attach=1.

PFIs and the PMU will be provided to enable feedback to be received systematically and follow-up on actions taken to be conveyed.

Grievance redress

39. RK-FINFA's grievance redress mechanism will ensure that any complaints that may arise during the implementation phase of the project are recorded and addressed promptly and transparently, with no negative impacts (cost, discrimination) for project-affected people who submit complaints. The mechanism will work within existing legal and cultural frameworks, providing an additional opportunity to resolve grievances at the local level. Each PFI to be supported through RK-FINFA will be expected to develop grievance redress mechanisms of their own, specific to the types of borrowers served, adopting local and institution-based mechanisms.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

40. The logical framework of RK-FINFA will guide the development of workplans and budgets for the project. Planning and budgeting will be integrated into government processes and cycles and will be based on annual workplans and budgets (AWP/Bs). During the pre-project period and immediately after project effectiveness, a robust monitoring and evaluation (M&E) system will be developed for RK-FINFA in compliance with IFAD and government requirements. Implementation of the M&E systems for the various project activities will be fully integrated with one another to ensure aggregation of data for the reports covering all activities and the provision of appropriate guidance to the project management. The project's knowledge management (KM) activities will be guided by a robust KM plan to improve learning, KM and communication practices within the project. A comprehensive draft RK-FINFA KM plan has been included in the PIM. Wider adoption outside the project of documented lessons learned, best practices and, especially, green financing methods from RK-FINFA will be an important measure of the project's success in KM.

Innovation and scaling up

41. To support the overall target of rural transformation, innovation will be encouraged at various levels of RK-FINFA operations. In the training of smallholders, new agricultural technologies and diversification for increased incomes will be encouraged. Capacity-building for PFIs will promote a permanent culture of proactive rural product innovation and product development. Potential for the scaling up of the key investment activities of RK-FINFA is promising. Various international financiers have expressed interest in investing in the scaling up of the RK-FINFA operation for additional investment in the GFF and RCGS and support to the related capacity-building operations.

C. Implementation plans

Implementation readiness and start-up plans

42. A draft PIM has been prepared as part of the RK-FINFA design process. In addition, a draft AWP/B and a draft procurement plan have been prepared for the first 18 months of project implementation. These documents aim to ensure that implementation starts without unnecessary delays during the first year of the project. Furthermore, various pre-project activities, including preparations for the documentation of partnership agreements and for tendering by technical service providers, are planned to start immediately after project approval by IFAD and the Government.

Supervision, midterm review and completion plans

43. RK-FINFA will be directly supervised by IFAD, with annual supervision missions, complemented by shorter implementation support missions organized with the participation of the Government. As RK-FINFA is a six-year project, a midterm review will be undertaken towards the end of third year of implementation. At the

end of the project implementation period, the Government, in collaboration with IFAD, will undertake a project completion review exercise in order to report on the results and impact achieved.

V. Legal instruments and authority

44. A project financing agreement between the Republic of Kenya and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.

45. The Republic of Kenya is empowered under its laws to receive financing from IFAD.

46. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

47. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Kenya in an amount of six million two hundred and forty thousand euros (EUR 6,240,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.
>
> RESOLVED FURTHER: that the Fund shall provide a loan on blend terms to the Republic of Kenya in an amount of twelve million six hundred and sixty thousand euros (EUR 12,660,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement

(Will be made available prior to the session)

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1b. Estimated corresponding total number of households members				PMU quarterly report from project MIS	Annually	PMU	Project initiates its activities on expected timelines and all approvals and implementation arrangements are in place.
	Household members		127,840	319,600				
	1a. Corresponding number of households reached							
	Households		26,400	68,000				
	1 Persons receiving services promoted by the project							
	Females		13,200	34,000				
	Males		13,200	34,000				
	Youth		8,160	20,400				
	Under-employed people including vulnerable groups		2,640	6,600				
	MSME entrepreneurs		800	2,000				
	Female %		50%	50%				
	Male %		50%	50%				
	Total		**26,400**	**68,000**				
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%				
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
	Percentage	4%	6%	8%				
	SF.2.1 Households satisfied with project-supported services				Surveys	Baseline, mid-term, completion	Third Party Surveys	Beneficiaries willing to take up financial services to expand operations
	Percentage (%)		80%	80%				
	Percentage of households reporting increase by at least 25% in income from among the recipient households				COI survey	Baseline, mid-term, completion	Third Party Surveys	
	Percentage		25%	60%				
	2.2.1 New jobs created				COI Surveys	Baseline, mid-term, completion	Third Party Surveys	
	Number		12,800	32,000				
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				COI Surveys	Baseline, mid-term, completion	Third Party Surveys	
	Number		8,160	20,400				
Outcome 1: Technical Support and Innovation Services	Number of PFIs reporting improved capacity to develop agricultural finance products and analyse agricultural loans disaggregated by commercial banks, MFBs and rural SACCOs		34	41	Outcome surveys	Baseline, mid-term and completion	PMU	Technical Assistance is rolled out in time
	Number of bankable proposals developed by targeted businesses disaggregated by size (micro/small/medium)		1,200	1,500				
	Number of bankable proposals developed by targeted farmers disaggregated by age, gender and vulnerability		24,500	35,000				70% of MSMEs supported will prepare bankable proposals

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	IE.2.1 Individuals demonstrating improvement in empowerment (reporting disaggregated by gender/age)		60%	80%	Outcome surveys	Baseline, mid-term and completion	PMU	TA rolled out in time and individuals are willing to participate
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 especially for women, youth and vulnerable groups, disaggregated by commercial banks, MFBs and rural SACCOs		34	41	PMU Records	Annual	PMU	Technical Assistance is rolled out in time
Output 1.2: Business Development Services (BDS) for Agribusinesses and Smallholders	2.1.1 Rural enterprises accessing BDS		1,200	1,500				
	1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services disaggregated by age, gender and under-employed persons disaggregated by - Male - Female (50%) - Young (30%) - Vulnerable groups (5%)		40,000	50,000	PMU Records	Annual	PMU	
Outcome 2: Rural financial instruments mobilized for improved access for agribusinesses and farmers	Leverage ratio achieved by Participating PFIs		2 times	4 times	COI surveys	Baseline, mid-term and completion	PMU	PFIs are willing to participate in the project
Output 2.1: Rural Credit Guarantee Scheme Mobilized	Number of PFIs contracted under the R-CGS		5	6	PMU Records	Annual	PMU	PFIs are willing to participate in the project
	Volume of credit disbursed by Commercial Banks		US$ 32M	US$ 80M				
	1.1.5 Persons in rural areas accessing financial services disaggregated by - Male - Female (30%) - Young (30%)		18,800	47,000				
	Number of women and youth specific products developed and deployed by Commercial Banks - Female - Youth		4	6				
Output 2.2: Green Financing Facility (GCF) Mobilized	Number of MFBs and rural SACCOs mobilized to access credit line		30	36				
	Volume of wholesale finance disbursed by FI managing the Green Credit Line		US$ 10M	US$ 20M				
	Volume of credit disbursed by MFBs and SACCOs		US$ 12.5M	US$ 20M				
	1.1.5 Persons in rural areas accessing financial services disaggregated by - Male		9,000	22,500				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	- Female (50%) - Young (30%)							
	Number of women and youth specific products developed and deployed by SACCOs & MFBs under GCF		20	32	PMU Records	Annual	PMU	PFIs are willing to participate in the project
Outcome 3: Strengthened rural finance sector policies	No of rural finance sector policies developed		2	7	Outcome surveys	Baseline, mid-term and completion	PMU	The National Treasury facilitates the policy development process
	Policy 1 Policy-relevant knowledge products completed		5	10				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers		75%	75%				

Integrated project risk matrix

Risk Categories and Subcategories	Inherent	Residual
Country Context		
Political Commitment	**Substantial**	**Moderate**
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 GoK commitments on counterpart funding. This can endanger the both the approval and subsequent implementation of loan-based development projects, including the IFAD-supported ones.		
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(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.		
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(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.		
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(s): Kenya is prone 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 likely 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.		
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		
Policy alignment	**Substantial**	**Moderate**

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.		
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 & implementation	**Substantial**	**Moderate**
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.		
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		
Project vulnerability to environmental conditions	**Substantial**	**Moderate**
Risk(s): Given that end line investments are targeted at smallholders and rural enterprises, land degradation, water availability etc. may adversely affect these investments.		
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(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.		
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		
Project relevance	**Moderate**	**Low**
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.		
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(s): 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.		
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 & Sustainability		
Implementation arrangements	**High**	**Moderate**
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 AWP/Bs of projects and potentially further lowering the implementation capacities in government institutions. PMUs showed limited capacity to successfully implement rural finance projects unless adequately supported.		
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. Centres of excellence in rural finance will support the implementation of critical project activities.		
M&E arrangements	**Substantial**	**Moderate**
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.		
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.		
Procurement		
Legal and regulatory framework	**Moderate**	**Moderate**
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.		
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(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.		
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 increases transparency and accountability. All IFAD self-certification forms will be adopted in their entirety.		
Capability in public procurement	**Substantial**	**Moderate**
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.		
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(s): Prior experience with GoK Implementing Agency shows long and cumbersome internal processes causing major delays in project implementation.		
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.		
Financial Management		
Organization and staffing	**Moderate**	**Moderate**
Risk(s): While PMU is expected to comprise of qualified personnel with appropriate expertise in their chosen fields, there could be a lack of familiarity by PMU staff of IFAD procedures.		
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.		
Budgeting	**Moderate**	**Moderate**
Risk(s): 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.		
Mitigations: The Financial Controller in the PMU will coordinate the budget preparation processes with close coordination with Project Coordinator and TSIS Coordinator. The expected contributions will be embedded in the MoU with the PFIs and monitored regularly by TSIS Coordinator to ensure they are well met and do not impact on project execution.		
Fund flow/disbursement arrangements	**Substantial**	**Moderate**
Risk(s): There is a risk of commingling of funds at the entity which will be provided with advances for the 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.		
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 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 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.		

Internal controls	**Substantial**	**Moderate**
Risk(s): 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.		
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 PIM 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.		
Accounting and financial reporting	**Substantial**	**Moderate**
Risk(s): There is a risk of delays in implementation of the accounting system and full adoption of the same in accounting and generation of financial reports of the projects in line with IFAD requirements.		
Mitigations: To mitigate on this risk, acquisition of the accounting system has been proposed as an effectiveness condition. The selection of project finance staff will also consider their skills/agility to use computerised systems.		
External audit	**Moderate**	**Low**
Risk(s): The main risk is 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.		
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.		
Environment, Social and Climate Impact		
Biodiversity conservation	**Moderate**	**Low**
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.		
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(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.		
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(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.		
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 Peoples	**Moderate**	**Low**
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.		
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.		

Community health and safety	**Low**	**Low**
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.		
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.		
Labour and working conditions	**Substantial**	**Moderate**
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.		
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.		
Physical and economic resettlement	**Low**	**Low**
Risk(s): The project interventions will not result in physical or economic resettlement of project beneficiaries.		
Mitigations: No mitigations are envisaged in this area.		
Greenhouse gas emissions	**Low**	**Low**
Risk(s): The project may cause result in GHG emissions albeit minimal from synthetic fertilizer use, dairy investments, and land clearing.		
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(s): The project is not expected to increase vulnerability of target beneficiaries and ecosystems in the geographic targeted areas.		
Mitigations: The project is expected to enhance resilience of the target beneficiaries and the ecosystems particularly through the green investments.		
Stakeholders		
Stakeholder engagement/coordination	**Substantial**	**Moderate**
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.		
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(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.		
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.		