

Document: EB 2010/100/R.19/Rev.1
Agenda: 13(b)(ii)
Date: 16 September 2010
Distribution: Public
Original: English

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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

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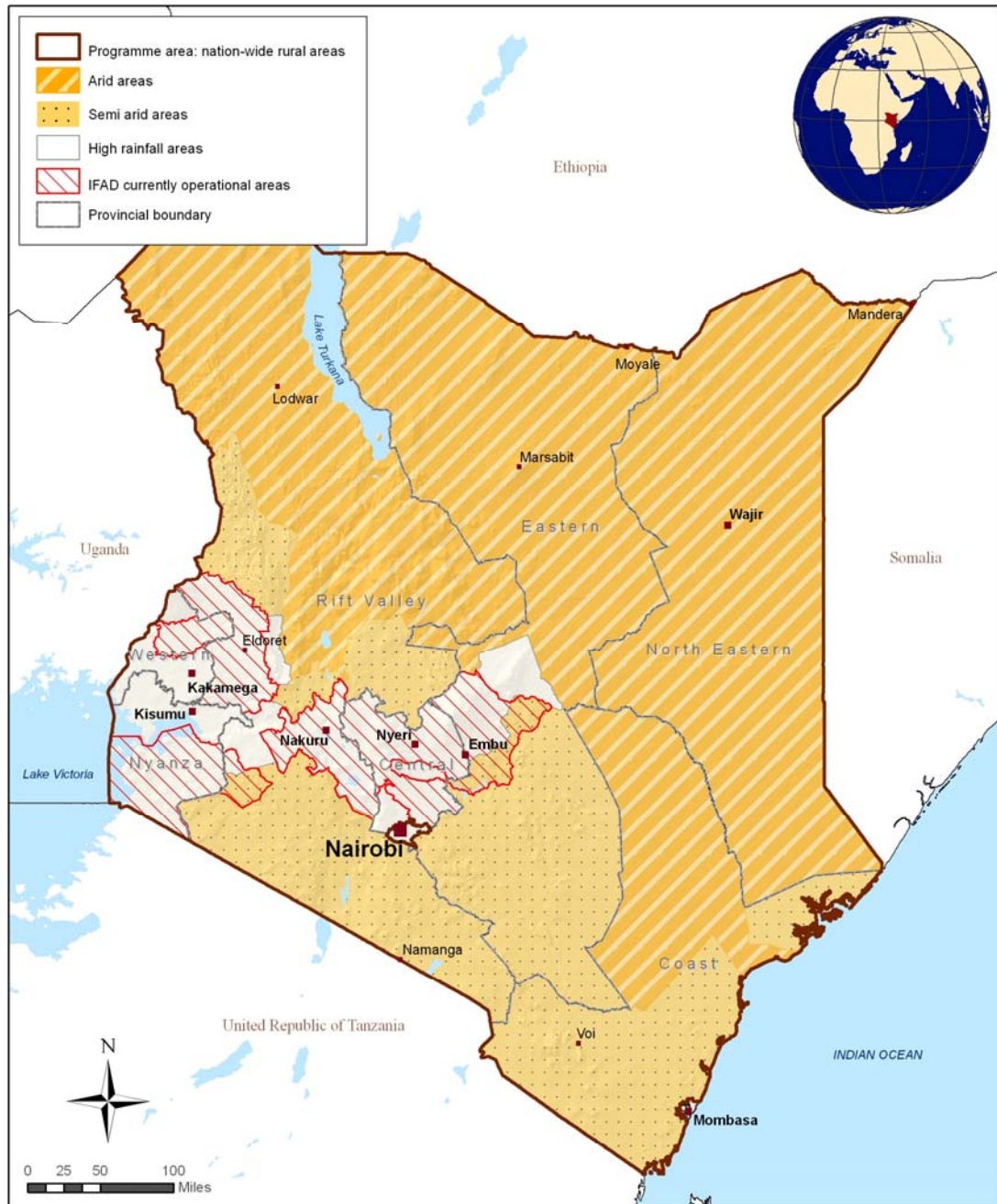
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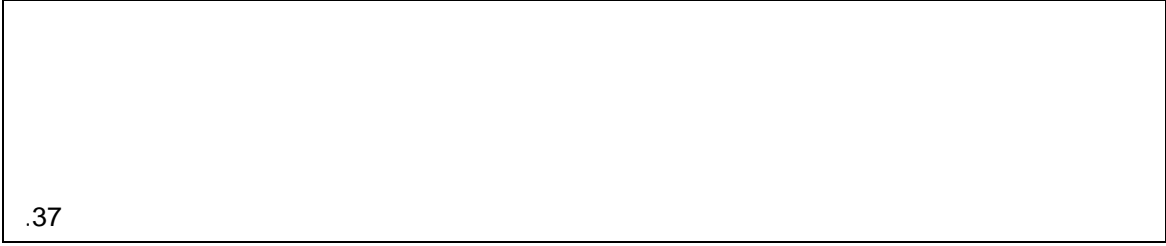
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Negotiated financing agreement: "Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)"

(Negotiations concluded on 24 August 2010)

Loan Number:

Grant Number:

Programme Title: Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) (the "Programme")

The Republic of Kenya (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the Loan is nineteen million three hundred thousand Special Drawing Rights (SDR 19 300 000)
 - B. The amount of the Grant is three hundred ninety five thousand Special Drawing Rights (SDR 395 000)
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal and service charge shall be payable on each 15 June and 15 December.

6. The Borrower/Recipient shall provide counterpart financing for the Programme in the amount of 0.561 million USD.

Section C

1. The Lead Programme Agency shall be the Ministry of Finance, Department of Economic Affairs.

2. The following are designated as additional Programme Parties: the Alliance for a Green Revolution in Africa and participating commercial banks.

3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy.

For the Borrower/Recipient:

Deputy Prime Minister and
Minister for Finance
P.O. Box 30007-00100
Nairobi, Kenya.

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Borrower/Recipient and three (3) for the Fund.

For the Borrower/Recipient
Deputy Prime Minister and
Minister for Finance

For the Fund
Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit at least 683 000 smallholder farmers, small pastoralists, artisanal fishermen, women, landless labourers and the youth in the rural areas of Kenya. The Programme will have national coverage but is designed only for rural areas of Kenya. Special focus will be given to areas with agricultural potential, areas of high poverty incidence, the Arid and Semi-Arid Lands region and synergies will be sought with IFAD's ongoing projects.

2. *Goal.* The goal of the Programme shall be to contribute to the reduction of poverty in the rural areas of Kenya.

3. *Objectives.* The objectives of the Programme shall be to increase incomes of the target group as a result of improved production, productivity and marketing in the various rural enterprise sectors. The Programme will achieve this through an enhanced and systematically sustainable access of poor rural households to a broad range of financial services, coupled with the necessary capacity building.

4. *Components.* The Programme shall consist of the following three Components and their associated sub-component:

4.1 *Rural Finance Outreach and Innovation Component*

- a) The Risk Sharing Facility sub-component is designed to enhance the risk appetite of commercial banks for rural and agricultural lending; it will leverage substantial commercial funds;
- b) The Credit Facility sub-component is for deposit taking Micro-Finance Institutions that need immediate access to funds for expansion of their rural and agricultural portfolios;
- c) The Innovation Facility sub-component is designed to develop and pilot-test innovations and the use of technology in the financial sector.

4.2 *Technical Support Services Component*

- a) The Business Support Service Facility sub-component is aimed at the Programme's target group at the rural/village level with limited business experience. The sub-component will also strengthen the management and governance of selected rural Savings and Credit Cooperatives Organizations to enhance their efficiency;
- b) The Financial Graduation Facility sub-component aims to facilitate the vulnerable women and youth acquire financial graduation through skills training and asset creation. It will, eventually, help the Government of Kenya to substantially reduce its social transfer payment liabilities.

4.3 *Programme Management Component*

This component aims at ensuring an efficient and cost effective use of Programme and complementary donor resources to achieve the development objective.

II. Implementation Arrangements

5. The Programme shall be implemented and coordinated by the Microfinance Unit (MFU) under the Economic Affairs Department of the Ministry of Finance. A Programme Advisory Committee shall provide policy-related guidance and advice while the MFU and the Programme's membership on Financial Sector Deepening Trust's Project Implementing Committee shall ensure receipt of technical implementation guidance and harmonisation with Financial Sector Deepening Trust's agenda. The MFU shall be responsible for procurement of the services of key partners, such as Alliance for a Green Revolution in Africa (AGRA), the Deposit Taking Microfinance Organizations (DTMs), the Innovation Facility Manager (IFM), and Technical Service Providers and for monitoring and evaluating their work. The MFU shall also be responsible for coordinating the preparation of a joint AWPB, collection of baseline information, monitoring reports, withdrawal applications and ensuring the production and dissemination of the learning notes, case studies and product profiles. The MFU shall provide support to the supervision missions and undertake any other tasks that facilitate the implementation of the Programme and ensure its success. A key responsibility of the MFU shall be to ensure synergy and coordination with other donor programmes and on-going IFAD projects in the country. An internal auditor shall be based within the MFU to provide assistance on compliance and oversight support to the Programme.

6. *Implementation Arrangements.* Implementation arrangements for the two main components shall be as follows:

6.1 Component 1: Rural Finance Outreach and Innovation – The three sub-components under this component shall have the following implementation arrangements.

a) The *Risk Sharing Facility* (RSF) shall be managed by AGRA. A subsidiary agreement shall be negotiated between the Ministry of Finance and AGRA which will guide the manner in which AGRA will manage the RSF. The RSF will build on previous AGRA work in structuring similar arrangements with commercial banks and it is expected that banks will participate in the facility. AGRA, through a Fund Manager, shall provide technical assistance and mentorship support to participating Banks and will oversee and supervise the structuring of each risk sharing arrangement. AGRA shall also be responsible for ensuring that proper governance systems are in place for implementation. In addition, AGRA shall be responsible for monitoring and evaluation and will, in particular, ensure that a rigorous set of metrics for measuring the impact of the RSF are in place, especially to assess if it is achieving scale in lending, systemic change and sustainability.

b) The *Credit Facility* shall be managed by the MFU. There are currently four institutions that have converted into DTMs and the Programme will, for now, work with these DTMs. The MFU shall require the DTMs to demonstrate that they will use the line of credit to deepen their rural outreach, expand the range of their financial services, especially savings and demonstrate their use of innovative financial products and technologies for the Programme's target group. The participating DTMs can also access the Innovation Facility for helping them develop their savings products and assist in strengthening their internal systems for deposit mobilisation, if required. As and when more financial institutions convert into DTMs, they shall be able to apply for participation in the PROFIT Credit Facility.

c) The *Innovation Facility* shall be managed by a competitively procured IFM with experience and capacity to manage such a facility. The innovation facility shall be accessed by other implementing partners of the Programme, such as DTMs, Microfinance Institutions, Technical Service Providers, etc., through proposals and arrangements that will be determined by the chosen agency. The Programme Implementation Manual shall provide guidance on how the facility is expected to work, the selection criteria, monitoring and evaluation.

6.2 Component 2: Technical Support Services – This component has two sub-components.

a) The *Business Services* sub-component will be managed by one or two Technical Service Providers (TSPs), to work directly with producer groups and market intermediaries. The MFU will negotiate performance-based contracts with each of the selected TSPs. The TSPs will also facilitate the producer groups and market intermediaries link with commercial banks and DTMs for provision of rural finance.

In addition, the sub-component will be used to strengthen the management, governance and business skills of rural Savings and Credit Cooperatives Organizations (SACCOs) through the District Cooperative Officers, together with services of competitively procured TSPs. Under this programme, SACCOs will receive technical support and those considered credit worthy by AGRA may receive funding under the Risk Sharing Facility. The programme monitoring system will include arrangements to monitor the impact of the technical assistance received by participating SACCOs.

b) The *Financial Graduation* sub-component shall be implemented under guidance from the Consultative Group to Assist the Poor (CGAP) and the BRAC Development Institute. CGAP and BRAC shall, with the assistance of MFU, short list an implementing partner in Kenya. They will also supervise the process closely throughout the period of pilot-testing. The pilot will link with the government's Hunger and Safety Nets Programme (HSNP) to feed lessons from its experience for the refinement of Phase 2 of the Government's HSNP.

7. *Programme Implementation Manual*. The MFU shall prepare the Programme Implementation Manual (PIM), which will include a Financial Management Manual, and will forward it to the Fund for comments and no objection.

Schedule 2*Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each category and the percentages of expenditures for items to be financed in each category:

Category	Amount of Loan Allocated (Expressed in SDR)	Amount of Grant Allocated (Expressed in SDR)	% of Expenditures to be Financed
I. Vehicles, Equipment and Materials	70 000		100% net of taxes or 75% of total expenditures
II. Technical Assistance, Training and Studies	5 770 000	395 000	100% net of taxes
III. Line of Credit	4 440 000		100% of total expenditures
IV. Risk Sharing Facility	5 930 000		100% of total expenditures
V. Salaries and Allowances	770 000		100% net of taxes or 90% of total expenditures
VI. Incremental Operating Costs	390 000		100% net of taxes or 65% of total expenditures
VII. Unallocated	1 930 000		
TOTAL	19 300 000	395 000	

Key reference documents

Country reference documents

Vision 2030

MTP 2008-2012

IFAD reference documents

Project design document (PDD) and key files
COSOP

Logical framework

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
Overall Goal: The programme goal is to contribute to the reduction of poverty in rural Kenya.	<ul style="list-style-type: none"> • % HH with improved assets by at least 7%. • Reduction in the national poverty line from 45% in 2010 to 38% by the end of the programme • % of reduction in the prevalence of child malnutrition by at least 5%. 	<ul style="list-style-type: none"> • Demographic and Health Surveys conducted by the Kenya National Bureau of Statistics • Kenya Integrated HH Budget Surveys produced by the Poverty Analysis and Research Unit (PARU) in the Central Bureau of Statistics (CBS). • Core Welfare Indicators Survey by GOK 	Stable political and economic environment.
Development Objective Increase in incomes of the target group as a result of improved production and productivity in the rural small holder and off-farm sectors.	<ul style="list-style-type: none"> • (%) of households with improvement in household assets, food consumption and those accessing social services by at least 7%. • (%) of reduction in the prevalence of child malnutrition from current rates by at least 5%. 	<ul style="list-style-type: none"> • Participatory beneficiary assessments. • Poverty Score cards for Kenya conducted periodically by the World Bank, CGAP or by PROFIT. • Demographic and Health Surveys. 	Stable political and economic environment.
Component 1: Rural Finance Outreach & Innovation Outcome 1.1: Enhanced access of poor rural HH to a broad range of cost effective financial services.	Reduction in the percentage of population which is excluded from access to financial services from the current 50% in rural areas in 2009 to 40% by the end of the programme period.	<ul style="list-style-type: none"> • Participatory beneficiary assessments. • Periodic FinAccess surveys conducted by the Financial Sector Deepening Trust. 	Stable political and economic environment. Negative impact of HIV/AIDs and poor health status of poor HH
Outcome 1.2: Systemic changes in the financial sector ensure flow of funds for agriculture and rural areas.	<ul style="list-style-type: none"> • No of commercial banks lending to MFIs, SACCOs, market intermediaries and clients without risk sharing mechanism in place. • % of portfolio in the agriculture sector and rural areas without risk sharing mechanisms in place. • % of clients in the agriculture sector and rural areas without risk sharing mechanisms in place. • % of portfolio at risk (outstanding balance of overdue loans for more than 30 days) • % of operational self-sufficiency. • 13 Indicators of the Social Performance Task Force (see M&E section of PIM). 	<ul style="list-style-type: none"> • Central Bank Reports. • FinAccess Surveys by FSDT. • Annual Reports of participating Banks providing services in the target area. • Mid-Term and End of Project Evaluation Reports. • Mix Market • Social Performance Reports of participating partners. 	
Component 2: Technical Support Services Outcome 2.1: Target group effectively manages its assets, markets its produce and increases its employment.	<ul style="list-style-type: none"> • Increase in the volume of produce marketed by the producer groups. • Increase in the profit margins for participating small holder producers and market intermediaries. • Increase in active SACCO membership over the programme period. • Increase in the operational self-sufficiency of participating SACCOs. • At least 70% of participants in the financial graduation project with increased assets and or in gainful employment. 	<ul style="list-style-type: none"> • Marketing Records of participating producer groups, cooperative- Farmers, dairy farmers, etc. • Focus group discussions with clients and Participatory appraisals. • Annual and Audit Reports of participating SACCOs • Reports by the TSPs. • Mid-Term and End of Project Evaluation Reports. 	Technical services lead to an increase in the uptake of financial services and business development.
Component 3: Programme Management Outcome 3.1: Efficient & cost effective use of programme and complementary donor resources to achieve the development objective.	<ul style="list-style-type: none"> • Staff strength of MFU. • Overall disbursement rates. • Timely procurement of service providers. • Government and donor perception regarding PROFIT. 	<ul style="list-style-type: none"> • MFU reports on PROFIT. • Minutes of Meeting of PAC. • Minutes of Donor meetings. 	