

Document: EB 2012/105/R.11/Rev.1
Agenda: 7(b)(i)
Date: 3 April 2012
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of Kenya for the

Upper Tana Catchment Natural Resource Management Project

Note to Executive Board representatives

Focal points:

Technical questions:

Samuel Eremie
Country Programme Manager
Tel.: +39 06 5459 2079
e-mail: s.eremie@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 105th Session
Rome, 3-4 April 2012

For: Approval

Contents

Abbreviations and acronyms	ii
Map of IFAD operations in the country	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	1
II. Project description	1
A. Project area and target group	1
B. Project development objective	2
C. Components/outcomes	2
III. Project implementation	2
A. Approach	2
B. Organizational framework	3
C. Planning, monitoring and evaluation, and learning and knowledge management	3
D. Financial management, procurement and governance	3
E. Supervision	4
IV. Project costs, financing, benefits	4
A. Project costs	4
B. Project financing	4
C. Summary benefit and economic analysis	4
D. Sustainability	5
E. Risk identification and mitigation	5
V. Corporate considerations	6
A. Compliance with IFAD policies	6
B. Alignment and harmonization	6
C. Innovations and scaling up	6
D. Policy engagement	7
VI. Legal instruments and authority	7
VII. Recommendation	7
Annex	
Negotiated financing agreement	9
Appendix	
Logical framework	

Abbreviations and acronyms

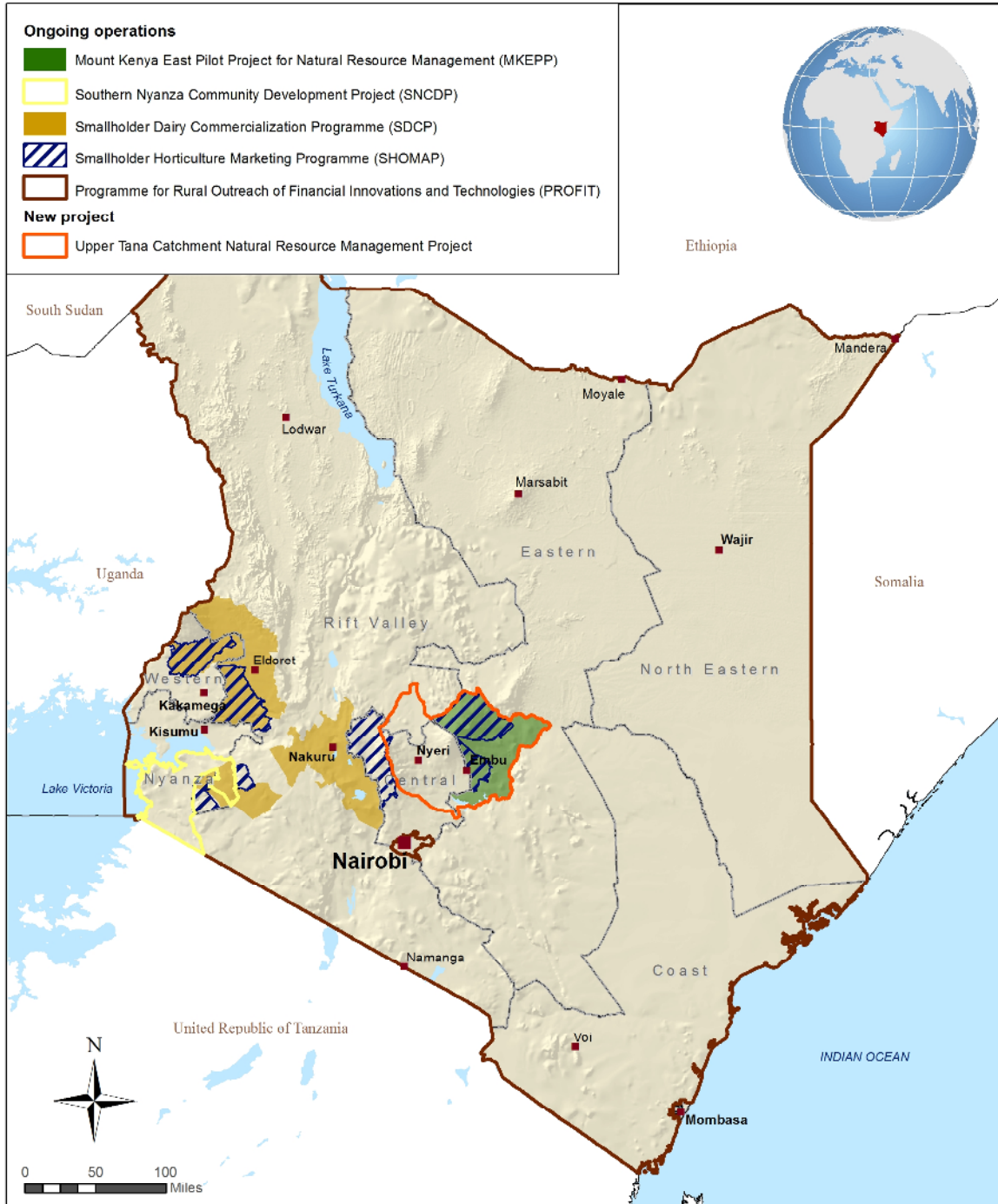
CFA	community forest association
ICB	international competitive bidding
M&E	monitoring and evaluation
MKEPP	Mount Kenya East Pilot Project for Natural Resource Management
MWI	Ministry of Water and Irrigation
NRM	natural resource management
NRMP	Natural Resources Management Project
PCT	project coordination team
SWC	soil and water conservation
WRUA	water-resource users' association
WSTF	Water Services Trust Fund

Map of IFAD operations in the country

Kenya

IFAD-funded operations

President's report



24-02-2012

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.

IFAD Map compiled by IFAD

Republic of Kenya

Upper Tana Catchment Natural Resource Management Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Kenya
Executing agency:	Ministry of Water and Irrigation
Total project cost:	US\$68.84 million
Amount of IFAD loan:	SDR 21.25 million (equivalent to approximately US\$33.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier:	Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund)
Amount of cofinancing:	EUR 12.8 million (equivalent to approximately US\$17.0 million)
Terms of cofinancing:	Same as IFAD loan
Contribution of borrower:	US\$11.34 million
Contribution of beneficiaries:	US\$7.50 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Kenya for the Upper Tana Catchment Natural Resource Management Project, as contained in paragraph 24.

Proposed loan to the Republic of Kenya for the Upper Tana Catchment Natural Resource Management Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Kenya's rural economy depends mainly on smallholder subsistence agriculture, which produces 75 per cent of total agricultural output. Most Kenyans live in areas having good to high potential for agriculture, and which comprise about 18 per cent of the country's territory. The concentration of population in high-potential areas places overwhelming pressure on the natural resource base, leading to degradation of resources. The national poverty level is about 46 per cent, but average rural poverty is about 48 per cent, and this may go as high as 65 per cent in the fragile arid and semi-arid lands that make up more than 80 per cent of the country's land mass and are home to over 30 per cent of the population. Among the reasons for persistent high levels of rural poverty are a high population growth rate – the population has more than tripled over the past 30 years – and strong livelihood dependence on a rapidly depleting natural resource base. The degradation of natural resources affects women more than men, as they assume greater responsibility for meeting the food, water and fuelwood needs of their families.

B. Rationale and alignment with government priorities and RB-COSOP

2. The project is a scaling up of the IFAD and Global Environment Facility-supported Mount Kenya East Pilot Project for Natural Resource Management (MKEPP), which aims to link sustainable use of natural resources to enhanced rural livelihoods in five selected river basins of the Upper Tana river. The 2009 mid-term review of the MKEPP concluded that performance was satisfactory and recommended scaling up of the project to cover the entire Upper Tana catchment. The rationale for the new project centres on the nexus between rural poverty and ecosystem health in a densely populated and environmentally fragile watershed of critical national and global significance. The strategic focus of the project is to provide incentives that promote sustainable natural resource management (NRM) activities. The project is aligned with Kenya's long-term development blueprint, Vision 2030, whose objective is to bring about increased and more-sustainable economic growth. Agriculture is one of the six priority sectors expected to deliver 10 per cent annual growth under Vision 2030. The project is also aligned with IFAD's strategic objectives of improving the delivery of services to and the incomes of poor rural people. IFAD's support is a response to Kenya's request through a project concept note.

II. Project description

A. Project area and target group

3. The project area covers about 17,420 square kilometres and includes 24 river basins that drain into the Tana river. The Upper Tana catchment covers six of Kenya's 47 counties, is home to 5.2 million people, and provides water for about half of Kenya's

population and most of the country's hydroelectric power. The area includes the Mt. Kenya and Aberdares national parks and the surrounding forest reserves, and has a population density of 300/km². The project targets about 205,000 poor rural households whose livelihoods centre on use of the natural resources of the river basins. The target group includes smallholder crop farmers, livestock breeders, agropastoralists, fishers, rural traders and community groups involved in NRM and income-generating activities. The special focus on women is based on the recognition that social and cultural constraints hinder women's participation in decision-making at family and community levels, as well as their access to land, agricultural inputs, technology and credit.

B. Project development objective

4. The goal of the project is to contribute to reduction of rural poverty in the Upper Tana catchment. Development objectives comprise: (i) increased sustainable food production and incomes for poor rural households living in the project area; and (ii) sustainable management of natural resources for the provision of environmental services.

C. Components/outcomes

5. The four components and their outcomes are: (i) community empowerment to sustainably manage natural resources through awareness creation and community capacity-building. County-level project facilitation teams will implement the project, supported by private-sector service providers; (ii) sustainable rural livelihoods, based on natural resources, through technology development, extension and implementation of matching grants for income-generating activities. This component will be implemented by the project coordination team (PCT) using independent evaluation of community proposals and independent monitoring of milestones for grant projects; (iii) sustainable water and natural resource management of land, water and forest resources through implementation of subcatchment management plans, community water development, remedial works at environmental hotspots, soil and water conservation (SWC), and human/wildlife conflict reduction through fencing. Implementation will be carried out by water-resource users' associations (WRUAs), community forest associations (CFAs) and individual farmers undertaking on-farm SWC measures. The matching grants will be administered by the Water Services Trust Fund (WSTF) using independent evaluation of proposals; and (iv) project management and coordination to ensure effective and efficient management through coordination, monitoring and evaluation (M&E) and knowledge management.

III. Project implementation

A. Approach

6. Based on the implementation experience of the MKEPP and other relevant NRM projects, the basic implementation approaches to be adopted are: (a) a community-driven development approach for priority interventions at the community level, to be implemented by community groups and with community contributions to project costs to ensure ownership and sustainability; (b) an ecosystem approach for NRM interventions, which may cross administrative boundaries, in order to assure ecological integrity; (c) an inclusive gender equity and mainstreaming approach that will ensure equitable participation by women, youth and vulnerable groups, through sensitivity to timing, location, venue and language of the capacity-building package; and (d) a public/private partnership approach that encourages the use of private-sector service providers wherever they have a comparative advantage over public-sector agencies, and partnerships with financial institutions to finance NRM investments.

B. Organizational framework

7. The Ministry of Water and Irrigation (MWI) will remain the lead project agency, as it was for the MKEPP. MWI will delegate implementation of some components to relevant ministries and agencies such as agriculture, livestock, gender, forestry, and environment at the county level. Oversight and policy guidance for the project will be provided by the project steering committee, chaired by the Permanent Secretary of MWI, while day-to-day coordination will be undertaken by the PCT, which will be based in the existing office facilities of the MKEPP. County project coordinating committees will guide the county project facilitation teams, responsible for implementation at the county level. MWI has demonstrated capacity as a lead agency with the MKEPP and is expected to continue its effectiveness with the new project. Since there are staff shortages at the local level for some ministries, the project will invest in building staff capacity and will engage private service providers to fill some skills gaps. With full implementation of the provisions of the new Constitution, there will be fewer ministries and a greater devolution of implementation responsibility to county governments.

C. Planning, monitoring and evaluation, and learning and knowledge management

8. Learning and knowledge management form a strong subcomponent of the project. Principal activities will include: preparation of a knowledge management, learning and communication strategy anchored in the M&E system, knowledge harvesting, storage and processing, and knowledge-sharing and learning partnerships. The project M&E system will be based on the existing MKEPP M&E system, with modifications to improve impact-level monitoring and to capture data from a scaled-up project. All M&E indicators will be gender disaggregated, and the M&E system will be linked to the National Integrated Monitoring and Evaluation System and the web-based financial management system, *e-ProMIS*, used by the Ministry of Finance to track financial flows. Electronic databases accessible through the project website will constitute the primary tool for sharing knowledge, together with action learning approaches and the establishment of communities of practice. Two officers in the PCT, an M&E and a knowledge management/learning officer, will jointly provide leadership to this subcomponent. The project will support capacity-building in planning, M&E, systematic knowledge management and learning among the implementing agencies and in relevant stakeholder institutions.

D. Financial management, procurement and governance

9. The project will use government financial management systems, which have been assessed by the design team as adequate. In accordance with section 4.04 (d) of the General Conditions, a reasonable amount of the financing will be transferred in advance to two accounts designated by the borrower. From these accounts the borrower will transfer funds to operational accounts at the PCT. The PCT will transfer funds to the counties or other implementing agencies on the basis of approved annual workplans and budgets. The Government of Kenya uses International Public-Sector Accounting Standards – Cash Basis, which are acceptable to IFAD. The PCT will maintain the project accounts, into which financial data for the counties and other implementing agencies will be fed. Financial statements prepared by the PCT will be audited by the Kenya National Audit Office using International Standards on Auditing. IFAD supervision missions have rated the MKEPP accounting functions as satisfactory. Kenyan national procurement systems have been assessed as being capable of undertaking procurement below the agreed international competitive bidding (ICB) thresholds. ICB procurement will follow World Bank procedures. Procurement will be coordinated by the PCT, but procuring entities will include the counties, WRUAs and community organizations, for which guidelines will be adapted from World Bank community procurement guidelines. Considering the high governance risk in Kenya, the governance framework for the project stipulates the following measures: (i) publication of the grant schemes, criteria for grant

allocations and use, membership of the evaluation committees, and individual grant decisions taken; and (ii) establishment of a complaint process.

E. Supervision

10. The project will be directly supervised by IFAD. Supervision and implementation support missions will be undertaken at least twice a year throughout the project implementation period. The supervision team will comprise members of the country programme management team, representing IFAD and the key ministries, and consultants on an as-needed basis. Focus in the first year will be on establishing implementation structures at the county level, finalizing the implementation guidelines and creating awareness of the project.

IV. Project costs, financing, benefits

A. Project costs

11. Total project costs are estimated at US\$68.84 million. Physical contingencies are considered insignificant, but, in view of the erratic inflation in Kenya, 7.9 per cent for price contingencies is provided. About 46 per cent of total costs are destined for the sustainable water and natural resource management component, and 32 per cent for the sustainable rural livelihoods component, reflecting the significance of these two components to the attainment of project objectives.

B. Project financing

12. The table below summarizes project financing. IFAD will finance 46 per cent of total project costs, while the Government of Spain will fund 26 per cent, both on highly concessional terms. Beneficiaries will contribute 11 per cent and the Government 16 per cent, mainly through taxes paid or forgone and recurrent cost financing.

	IFAD/Spanish							
	GoK		Loans		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
A. Community empowerment								
1. Sensitization and awareness-raising	22	1.7	1 294	98.3	-	-	1 316	1.9
2. Establishment and strengthening of key community structures	16	1.1	1 482	98.9	-	-	1 498	2.2
3. Community action plans	-	-	1 329	100.0	-	-	1 329	1.9
Subtotal	38	0.9	4 105	99.1	-	-	4 143	6.0
B. Sustainable rural livelihoods								
1. Adaptive research and demonstrations	187	10.7	1 563	89.3	-	-	1 750	2.5
2. Adoption of income-generating activities	795	3.9	15 015	73.2	4 711	23.0	20 521	29.8
Subtotal	983	4.4	16 577	74.4	4 711	21.2	22 271	32.3
C. Sustainable water and natural resource management								
1. Sustainable management of water resources	9 456	47.2	9 932	49.5	664	3.3	20 052	29.1
2. Sustainable management forest and agricultural ecosystems	644	5.4	9 159	76.8	2 126	17.8	11 928	17.3
Subtotal	10 100	31.6	19 091	59.7	2 790	8.7	31 981	46.5
D. Project management and coordination								
1. Project management	136	1.6	8 386	98.4	-	-	8 521	12.4
2. Knowledge management and learning	88	4.6	1 841	95.4	-	-	1 929	2.8
Subtotal	223	2.1	10 227	97.9	-	-	10 450	15.2
Total project costs	11 344	16.5	50 000	72.6	7 501	10.9	68 845	100.0

C. Summary benefit and economic analysis

13. The number of direct beneficiaries is estimated at 205,000 households and the project cost per household is approximately US\$300. The breakdown of beneficiaries by intervention is summarized in the table below:

<i>Intervention</i>	<i>Households</i>
Wildlife barrier fences (60 km)	80 000
Community water development (600 wells, boreholes, springs, etc.)	60 000
Matching grants for income-generating activities	40 000
Matching grants for soil and water conservation on farmlands	16 000
Forest rehabilitation works and efficient use of fuelwood	7 000
Water-efficient irrigation methods	2 000

14. A larger number of indirect beneficiaries will also enjoy improved environmental conditions in the project area, community empowerment and improved downstream water use outside the Upper Tana catchment. The economic analysis draws mainly on the estimated on- and off-site costs and benefits of various SWC measures, as well as on a range of sustainable income-generating activities. The alternative without-project scenario includes continuing high rates of soil erosion, river siltation, loss of productive agricultural land, decline of crop yields, forest encroachment and degradation. In essence, the project will provide incentives to the custodians of natural resources in the Upper Tana catchment to take measures that are good for the environment and for themselves, and from which other parties will also derive benefit. The quantifiable benefits to stakeholders within the catchment will include: increased farm incomes and food production through the adoption of SWC measures and income-generating activities that have a neutral or positive impact on the environment; reduced erosion and silt loads in the rivers arising from good public investments such as the revegetation of river banks, remedial works in environmental hotspots, and reforestation; and reduced reservoir siltation rates and increased dry-season stream flows, which will improve the availability of water for Nairobi and increase the amount of hydropower generated. The less-easily quantified benefits include: maintenance of biodiversity; reduced human/wildlife conflict; increased carbon sequestration; improved capacity of the institutions responsible for NRM; empowerment of communities as custodians of natural resources; public health benefits associated with improved water quality; and opportunities to develop ecotourism enterprises. Taking into consideration the value of benefits generated by SWC initiatives, income-generating activities and irrigation, but excluding benefits to downstream water users, the project is expected to generate an economic rate of return of about 20 per cent.

D. Sustainability

15. Sustainable management of natural resources is the central theme of the project. Other dimensions of sustainability addressed by project design comprise: community empowerment as the foundation of sustainability, by developing awareness and the capacity of communities to self-manage their natural resource endowment on an ongoing basis; institutional development, through building the capacity of devolved government institutions for sustainable NRM; and a focus on sustainable livelihood options. Complementary measures to enhance the prospects for sustainable smallholder agriculture in the Upper Tana catchment include: encouraging greater participation of the private sector in the supply of inputs and services; supporting the development of farmer groups; and training farmers and extension staff intensively in environmentally friendly agricultural technologies.

E. Risk identification and mitigation

16. Apart from the governance risk, other risks at the national level are the uncertain deadlines for the ongoing devolution process to the counties, in line with the new Constitution, and the political uncertainty of the general elections planned for early 2013. These risks are being monitored at the IFAD country office level and appropriate mitigation measures will be applied as the issues arise. Project-specific risks are considered moderate, as the project will largely draw on the experience of the MKEPP and the World Bank-assisted Natural Resource Management Project

(NRMP). The risks foreseen include: (a) low implementation capacity for scaled-up operations, which will be mitigated partly by project phasing and the involvement of several implementation partners; (b) weak capacity to enforce environmental laws, which will be mitigated by strengthening the capacity of the enforcement agencies; and (c) potential corruption in management of the matching grants, which will be mitigated through the use of transparent and widely publicized guidelines and processes for the evaluation of proposals, monitoring, disbursement of funds and communication of results.

V. Corporate considerations

A. Compliance with IFAD policies

17. The IFAD policies relevant to the project are: IFAD Climate Change Strategy, IFAD Environment and Natural Resource Management Policy, IFAD Strategy for Knowledge Management and IFAD Targeting Policy. All key aspects of these policies have been factored into the design. The climate change strategy and the environment and NRM policy were the pillars of the design and objective of sustainable management of natural resources in the project area. The Environment and Climate Division of IFAD was fully engaged in the design process, including providing support for the environmental and social impact assessment and the strategic environmental assessment. The project was classified Category B on the basis of the positive effects the project is likely to have on the environment. Knowledge management was upgraded to the level of a subcomponent, with a dedicated officer, to ensure that the lessons from this project and others are fully analysed and shared for better environmental management. Project design also complies with the draft Policy on Gender Equality and Women's Empowerment, which will be submitted for the approval of the Executive Board in April 2012. The targeting and gender checklists were duly completed and cleared by the Policy and Technical Advisory Division of IFAD.

B. Alignment and harmonization

18. There are currently 10 ministries associated with the agriculture sector. While this number will be considerably reduced with full implementation of the new Constitution, the Agriculture-Sector Development Strategy (ASDS) 2010-2020 is already serving as a strong harmonization mechanism. The ASDS has the overall goal of achieving an average sector growth rate of 7 per cent per year centred on two strategic thrusts: increasing the productivity, commercialization and competitiveness of agricultural enterprises; and managing key factors of production. ASDS priorities for production factors include: improving water resources and irrigation development, land use, management of the environment and natural resources, and forestry and wildlife resources. The Agriculture and Rural Development-Sector Working Group under the Kenya Joint Assistance Strategy, of which IFAD is a member, brings together government, development partner and non-state actors in dialogue on sector priorities and progress. IFAD is also a member of the Environmental Protection and Water Group. The design of the project fully incorporates the outcome of an IFAD-assisted grant project, Green Water Credit, and the ongoing experience of the World Bank-assisted NRMP, whose area of operation significantly coincides with that of this project. To further strengthen alignment, the project will support the WRUAs formed under the World Bank project to implement their subcatchment management plans.

C. Innovations and scaling up

19. This is a scaled-up design aimed at expanding, adapting and sustaining successful approaches and activities under the MKEPP and the World Bank project in order to reach more poor people in the project area and to have greater impact on the sustainable management of natural resources. Interventions to be scaled up include: river gauging stations, for maintaining an operational climatic and water resource data-collection system to guide project planning and M&E; preparation of

subcatchment management plans in the extended project area and support to the implementation of already-prepared plans through grants administered by WSTF; training of WRUAs and institutional capacity-building of implementing agencies; rainwater harvesting in plastic tanks, and development of springs as a low-cost source of clean domestic water; rehabilitation of indigenous forests; wildlife barriers; farm forestry; school greening programmes; community empowerment; and income-generating activities linked with NRM. The scaling up from five river basins under the MKEPP to 24 in this project is challenging and will be addressed in two ways: first, by phasing in the new river basins, with periodic reviews to assess performance and the capacity for further scaling up; and, second, by emphasizing a coordinating rather than implementing role for the PCT, and relying more on implementation partnerships. The scaling-up process is driven by the Government, as part of its efforts to improve the management of water resources in the Upper Tana catchment. Other drivers of change include the rural communities living in the project area, which have demonstrated a willingness to participate in and contribute to initiatives that improve their livelihoods, their access to water and climate change mitigation. IFAD, as part of its core mandate of poverty reduction, is supporting the Government and local communities in designing interventions that reverse the trend of natural resource degradation. One of the pathways for scaling up will be a seamless transition from the MKEPP to the project, which is expected to start 3-6 months before the MKEPP closes. Another is a fairly long implementation period of eight years to allow for adequate awareness creation and capacity-building in support of NRM investments. Overall, the project is considered only moderately risky.

D. Policy engagement

20. The M&E and learning and knowledge management subcomponents of the project will be the major instruments for generating evidence for policy dialogue. The capture, analysis and communication of experience and lessons from the communities, counties and other implementing partners will strengthen the ability of the communities and IFAD to influence policy on NRM and livelihood opportunities. IFAD's membership in the relevant sector groups and capacity-building support to institutions are also opportunities for improved policy dialogue.

VI. Legal instruments and authority

21. A project financing agreement between the Republic of Kenya and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
22. The Republic of Kenya is empowered under its laws to receive financing from IFAD and from the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the trustee.
23. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Republic of Kenya in an amount equivalent to twenty one million two hundred and fifty thousand special drawing rights (SDR 21,250,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the Trustee of the Trust, shall make a loan on highly concessional terms to the Republic of Kenya in an amount equivalent to twelve million eight hundred thousand euro (EUR 12,800,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Upper Tana Catchment Natural Resource Management Project (UTaNRMP)"

(Negotiations concluded on 15 March 2012)

IFAD loan number: _____

Trust loan number: _____

Project Title: Upper Tana Catchment Natural Resource Management Project (the "Project")

The Republic of Kenya (the "Borrower")

and

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

and

The Spanish Food Security Cofinancing Facility Trust Fund (the "Trust")

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

WHEREAS the Executive Board of IFAD at its 100th Session approved the establishment of the Trust and further approved that the Trust, acting through IFAD in its capacity as the Trustee, enter into a Borrowing Agreement with the Kingdom of Spain; and

WHEREAS the Kingdom of Spain and IFAD, in its capacity as the Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010;

WHEREAS IFAD has agreed to extend a Loan (the IFAD Loan) to the Borrower for the purpose of financing the Upper Tana Catchment Natural Resource Management Project, on the terms and conditions set forth in this Agreement;

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Loan (the Trust Loan) to the Borrower through IFAD as Trustee for the purpose of cofinancing the above referenced Project, on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project 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. The term "Loan" in the General Conditions shall apply equally to the IFAD Loan and the Trust Loan.

3. The Fund shall provide a Loan and the Trust shall provide a Loan to the Borrower (collectively referred to as "the Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the IFAD Loan is SDR 21.25 million.
 - B. The amount of the Trust Loan is EUR 12.80 million.
2. The IFAD Loan and the Trust Loan are granted on Highly Concessional Terms.
3. The Loan Service Payment Currency for the IFAD Loan shall be US dollar. The Loan Service Payment Currency for the Spanish Trust Loan shall be the Euro.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal and service charge of the IFAD Loan and the Trust Loan shall be payable on each 15 February and 15 August.
6. The Borrower shall provide counterpart financing for the Project in an estimated amount of USD 11.34 million to finance all duties and taxes as well as to contribute to part of the expenditures of Category II (Sensitization, Training Workshops and Studies), Category III (Grants and Awards), and Category V (Civil Works).

Section C

1. The Lead Project Agency shall be the Ministry of Water and Irrigation of the Borrower or such other Ministry responsible for water as the Borrower may designate.
2. The following are designated as additional Project Parties: the ministries responsible for Agriculture, Livestock, Fisheries, Cooperatives, Marketing, Rural Finance, Rural Roads, Environment, Mineral Resources, Forestry, Wildlife, Gender, Children and Social Development, Finance, and Planning; the participating counties; the Kenya Forest Service, the Kenya Wildlife Service, the Kenya Agricultural Research Institute, the Kenya Plant Health Inspection Services, the Water Resources Management Authority, the Water Services Trust Fund (or any of their successor organizations), and participating Water Resource Users Associations, Community Forest Associations and Common Interest Groups.
3. The Project Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following is designated as an additional ground for suspension of this Agreement: any key Project Coordination Team member has been removed without the endorsement of the Fund.

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

For the Borrower:

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

For the Fund:

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

For the Spanish Food Security Co-Financing Facility Trust Fund

President
International Fund for Agricultural Development in its capacity as Trustee
of the Spanish Food Security co-Financing Facility Trust Fund
Via Paolo di Dono 44
00142 Rome, Italy

This agreement, dated _____, has been prepared in the English language in nine (9) original copies, three (3) for the Fund, three for the Trust and three (3) for the Borrower

REPUBLIC OF KENYA

Authorized Representative
Title

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

FOR THE SPANISH FOOD SECURITY
CO-FINANCING FACILITY TRUST FUND

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit about 205,000 poor rural households whose livelihoods revolve around the use of the natural resources in the Upper Tana River catchment. The target group includes smallholder crop and livestock farmers, agro-pastoralists, fishers, rural traders, and community groups involved in Natural Resource Management (NRM) and income generating activities, with a special focus on women whose participation in decision-making at the family and community level, as well as access to land, agricultural inputs, technology and credit is hindered by social and cultural constraints.
2. *Project Area.* The Project shall be implemented in 24 river basins lying largely within the six counties of Embu, Kirinyaga, Meru, Murang'a, Nyeri and Tharaka-Nithi.
3. *Goal.* The goal of the Project is to contribute to reduction of rural poverty in the Upper Tana River catchment.
4. *Objectives.* The objectives of the Project shall be to increase sustainable food production and incomes for poor rural households living in the Project area, and the sustainable management of the natural resources for provision of environmental services.
5. *Components.* The Project shall consist of the following four Components and their associated sub-component:

5.1 Community Empowerment Component

- a) The *Sensitisation and Awareness Raising* sub-component is designed to stimulate interest and awareness about the importance of sustainable rural livelihoods and NRM;
- b) The *Establishment and Strengthening of Key Community Structures* sub-component is to support the creation and strengthening of community organisations by developing their skills for participatory planning and project implementation;
- c) The *Community Action Plans (CAPs) for Livelihood Improvement and Sustainable NRM* sub-component is designed to develop CAPs which reflect community felt needs and priorities and which form the basis for the preparation of the annual work plan for the implementation of the identified priorities.

5.2 Sustainable Rural Livelihoods Component

- a) The *Adaptive Research and Demonstrations* sub-component will address some of the technical and knowledge constraints to improved productivity and livelihoods in the Upper Tana catchment;
- b) The *Adoption of Income Generating Activities (IGAs)* sub-component will encourage the adoption of enterprises assessed as having neutral or beneficial environmental impacts through a matching grant support;

5.3 Sustainable Water and Natural Resource Management Component

- a) The *Sustainable Management of Water Resources* sub-component shall continue the approach of community-based water resource management as mandated by the Water Act and implemented by MKEPP and the World Bank-assisted Natural Resources Management Project (NRMP), including support for remedial actions at environmental hotspots that affect water sources;
- b) The *Sustainable Management of Forest and Agricultural Ecosystems* sub-component will provide support to community groups to improve their management of agricultural and forest lands, including matching grants for technically viable soil and water conservation (SWC) measures implemented on-farm and the construction of wildlife-proof fencing to reduce human-wildlife conflict.

5.4 Project Management and Coordination Component

This component aims at ensuring an effective and efficient management of the Project through coordination, monitoring and evaluation and knowledge management.

II. Implementation Arrangements

6. The Project shall be implemented and coordinated by the Ministry of Water and Irrigation. A Project Steering Committee shall provide policy-related guidance and advice while the day-to-day management of the Project will be undertaken by a Project Coordination Team (PCT), supported by the County Project Coordinating Committees (CPCCs), the County Project Facilitating Teams (CPFTs), and other implementation partners. The PCT shall be responsible for the procurement of the services of key partners and for monitoring and evaluating their work. The PCT shall also be responsible for the conduct of a baseline survey, the coordination of preparation of the joint annual work plan and budget (AWPB), overall Project progress reporting and financial management, and ensuring knowledge management and learning. The PCT shall provide support to the supervision missions and undertake any other tasks that facilitate the implementation of the Project. A key responsibility of the PCT shall be to ensure synergy and coordination with other IFAD-assisted and donor projects in the country.

7. *Implementation Arrangements.* Implementation arrangements for the three main components shall be as follows:

7.1 Component 1: Community Empowerment. The three sub-components under this component shall be implemented by the PCT, under the oversight of the Community Empowerment Coordinator, with the support of the Ministry for Gender, Children and Social Development at the county level, and through the engagement of other service providers to fill any skill gaps in capacity building.

7.2 Component 2: Sustainable Rural Livelihoods. The two sub-components under this component shall have the following implementation arrangements under the oversight of the Rural Livelihoods Coordinator in the PCT:

- a) The *Adaptive Research and Demonstrations* sub-component shall be implemented by the relevant government departments and service providers in conjunction with the Kenya Agricultural Research Institute (KARI) through its Embu Station and possibly other stations. The Kenya Plant Health Inspection Services (KEPHIS) will be responsible for regulatory oversight of seed multiplication and distribution.

- b) The *Adoption of Income Generating Activities* sub-component shall be managed by the PCT using transparent guidelines adapted from the "Livelihood Component Operations Manual" used by NRMP.

7.3 Component 3: Sustainable Water and Natural Resource Management

The two sub-components under the component shall be implemented as follows:

- a) The *Sustainable Management of Water Resources* sub-component shall be implemented mainly by the Water Resource Users Associations (WRUAs) who will develop and implement sub-catchment management plans (SCMPs) with technical support from the Water Resources Management Authority (WRMA) and financial support administered by WSTF. The WRUAs will work through common interest groups (CIGs) in implementing the SCMPs. The implementation of this sub-component will be under the oversight of the Water Resources Coordinator in the PCT.
- b) The *Sustainable Management of Forest and Agricultural Ecosystems* sub-component shall be implemented mainly by the Community Forest Associations and CIGs, with the matching grant support for SWC interventions administered by the PCT, the wildlife fencing managed by the Kenya Wildlife Service, and the rehabilitation of degraded forests managed by the Kenya Forest Service. The implementation of this sub-component will be under the oversight of the Land and Environment Coordinator at the PCT.

8. *Programme Implementation Manual.* The PCT shall revise the draft Project Implementation Manual (PIM), to include among other things, a Financial Management Manual, a Manual for the Implementation of the Grants including the criteria for evaluation and moving from one phase to the other, and Guidelines for Partnership Development. The revised PIM will be forwarded to the Fund for comments and no objection.

9. *Mid-Term Review.* A Mid-term Review (MTR) shall be conducted at the end of Project Year four, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Lead Project Agency and IFAD.

Schedule 2*Allocation Table*

1. *Allocation of IFAD Loan and Trust Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the IFAD Loan and the Trust Loan; the allocation of the amounts of the IFAD Loan and the Trust Loan to each Category and the percentages of expenditures for items to be financed in each Category.

Category	Amount of the IFAD Loan Allocated (Expressed in SDR)	Amount of the Spanish Trust Fund Loan Allocated (Expressed in EUR)	% of Expenditures to be Financed
I. Vehicles, Equipment and Materials	2 300 000	1 385 000	100% net of taxes
II. Sensitization, Training Workshops and Studies	3 980 000	2 395 000	100% net of taxes
III. Grants and Awards	6 835 000	4 120 000	100% net of taxes and beneficiaries' contributions
IV. Technical Assistance	540 000	325 000	100% net of taxes
V. Civil Works	2 920 000	1 760 000	100% net of taxes
VI. Salaries, Allowances, Operations and Maintenance	2 550 000	1 535 000	100% net of taxes
Unallocated	2 125 000	1 280 000	
TOTAL	21 250 000	12 800 000	

(b) All withdrawals shall be apportioned by the Fund proportionally between the IFAD Loan and the Trust Loan.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs in Category I: Vehicles, Equipment and Materials, Category II: Sensitization, Training Workshops and Studies and Category VI: Salaries, Allowances, Operations and Maintenance incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 800 000 for each of Category I, II and VI, respectively.

3. No withdrawals shall be made under Category III (Grants and Awards) until a governance framework for the WSTF and the PCT acceptable to the Fund shall have been put into place.

4. An impact evaluation of the Mount Kenya East Pilot Project (MKEPP) shall be carried out by the Borrower and submitted to the Fund for review. Activities found by the impact evaluation to not be effective shall be redesigned as agreed between the Fund and the Borrower. Withdrawals may only be made under Category III (Grants and Awards) for activities found to be effective by the Fund.

5. After the allocation of 10%, 30% and 60% of the grants under Category III, the Borrower shall ensure that audits of the resource allocation processes and use of grant funds are carried out by an independent service provider acceptable to the Fund. Withdrawals may only be made under Category III on condition that the Fund has determined that such audits are satisfactory, and only for grants which have been approved by one of the two committees which decide on grant allocations.

Logical framework

Results Hierarchy	Indicators a/	Means of Verification	Assumptions
Goal: Contribute to reduction of rural poverty in the Upper Tana river catchment.	<ul style="list-style-type: none"> • 15% reduction of poverty prevalence rate among 205,000 households participating in the project by Year 8 (Baseline 43.1% in 2005) • 3% reduction in malnutrition prevalence (weight for age of children under 5) in project area by Year 8 (Baseline 16% in 2009) • 5% increase in inventory of household assets among 205,000 participating households by Year 8 (Baseline ?) 	<ul style="list-style-type: none"> • Household income and expenditure surveys. • RIMS impact survey questionnaire (baseline and final) • Demographic and health surveys conducted by Kenya National Bureau of Statistics • Annual household asset surveys by M&E 	
Development Objectives: Increased sustainable food production and incomes for poor rural households in the project area; and sustainable management of natural resources for provision of environmental services.	<ul style="list-style-type: none"> • 15% increase in average real incomes for 205,000 households engaged in sustainable NRM enterprises by Year 8 (Baseline ?). • 20% reduction in sediment load in rivers and water reservoirs in Upper Tana Catchment by Year 8 (Baseline 24,000 tonnes/day in rainy season and 2,800 tonnes/day in dry season). • 5% increase in base flow in rivers by Year 8 (Baseline ?). • 5% increase in ha of forest reserve protected/rehabilitated by Year 8 (Baseline ?). 	<ul style="list-style-type: none"> • Baseline and annual follow-up production and income surveys in Project area by M&E and during impact survey in Year 8. • Biannual river gauging surveys by WRMA. • Periodic sampling and analysis of river water. • Remote sensing data to monitor forest conditions. 	<ul style="list-style-type: none"> • Potential conflicts between conservation and livelihood pillars of the Project are resolved. • Farmers and entrepreneurs in the project area have improved market access.
Outcome 1: Rural communities empowered for sustainable management of natural resources.	<ul style="list-style-type: none"> • Increase in number of community-led initiatives to improve the management of natural resources. 	<ul style="list-style-type: none"> • Annual Project reports. • Media articles on community-led initiatives. 	<ul style="list-style-type: none"> • County conflict resolution mechanism for community investments in NRM
Output 1.1: Communities with increased awareness of sustainable NRM.	<ul style="list-style-type: none"> • Level of awareness on NRM issues within 273 participating communities. 	<ul style="list-style-type: none"> • Baseline and annual follow-up surveys on awareness about NRM issues by M&E • Media reports on NRM issues 	
Output 1.2: Key community organisations with increased capacity to manage natural resources sustainably.	<ul style="list-style-type: none"> • Capacity of 294 community organizations for sustainable NRM planning and implementation 	<ul style="list-style-type: none"> • Baseline and annual follow-up organisational capacity assessment tools. 	<ul style="list-style-type: none"> • Communities have access to resources to invest in sustainable NRM.
Output 1.3: Community action plans for livelihood improvement and sustainable NRM.	<ul style="list-style-type: none"> • Number of community action plans prepared and implemented (target 240 FDAs and 33 CFAs). 	<ul style="list-style-type: none"> • Documented action plans. 	<ul style="list-style-type: none"> • Action plans will address the causes of un-sustainable natural resource utilisation.
Outcome 2: Natural resource-based rural livelihoods sustainably improved.	<ul style="list-style-type: none"> • Increase in level of income generated and assets acquired by participating households. 	<ul style="list-style-type: none"> • Household income and asset surveys: baseline and follow-up by M&E. 	<ul style="list-style-type: none"> • Market opportunities for agricultural products will continue to expand.

Output 2.1: Agricultural packages adapted to agro-ecological and socio-economic contexts.	<ul style="list-style-type: none"> • Number of sustainable agricultural packages tested and demonstrated (target of 240 by Year 8). • Quantity of seed produced (target of 200 contract seed growers producing 720 tonnes of seed by Year 8) 	<ul style="list-style-type: none"> • Reports on trials, demonstrations and research results. 	<ul style="list-style-type: none"> • Tested packages are adopted appropriately by farming communities
Output 2.2: CIGs successfully adopt or improve farm and/or non-farm IGAs	<ul style="list-style-type: none"> • Increasing adoption by CIG members (target 40,000 members and 3,210 matching grants by Year 8). 	<ul style="list-style-type: none"> • Project reports on CIG income-generating activities by M&E. • Farmer field school records. 	<ul style="list-style-type: none"> • Continued access to financial services and inputs, including through PROFIT.
Outcome 3: Land, water and forest resources sustainably managed for the benefit of local people and the wider community.	<ul style="list-style-type: none"> • Reduction in level and severity of land degradation, improved water flows, water quality and forest condition. 	<ul style="list-style-type: none"> • Baseline and follow-up measurements of these key environmental parameters through biannual river gauging surveys by WRMA, periodic sampling and analysis of river water, and remote sensing data to monitor forest conditions. 	<ul style="list-style-type: none"> • Potential conflicts related to resource utilisation will be resolved.
Output 3.1: Sustainably managed water resources.	<ul style="list-style-type: none"> • Access to safe water (target 60,000 households by Year 8). • Area under irrigated using water-efficient methods (target 2,000 ha by Year 8). • Levels of chemical and microbial pollution in waterways (Baseline ?). • Number of functional WRUAs (target of 24, Baseline is 17 WRUAs formed by MKEPP and NRMP). 	<ul style="list-style-type: none"> • Household surveys (baseline and follow-up). • Records kept by Irrigation Water User Associations. • Bathymetric surveys in reservoirs. • Water quality monitoring surveys. 	<ul style="list-style-type: none"> • There is adequate community capacity to maintain the water investments for continued sustainability
Output 3.2: Sustainably managed forest and agricultural ecosystems.	<ul style="list-style-type: none"> • Area of forests rehabilitated and/or protected (target of 1,300 ha by Year 8) • Number of human-wildlife conflicts reported (target of 60 km of wildlife fence by Year 8). • % decrease in rates of farm soil loss by Year 8 • Disbursement and use of 1,450 matching grants for SWC initiatives by Year 8. 	<ul style="list-style-type: none"> • Reports on activities undertaken by CFAs. • Soil loss measurements at representative sites covering the main farming systems. • Reports on matching grants for SWC activities 	<ul style="list-style-type: none"> • CFAs effective in controlling illegal uses of forest resources. • SWC matching grants activities continue after the matching grants.
Outcome 4: Project effectively and efficiently managed.	<ul style="list-style-type: none"> • Project activities fully integrated in mainstream GoK systems and institutions with functional management, monitoring and reporting. 	<ul style="list-style-type: none"> • NIMES M&E reports 	<ul style="list-style-type: none"> • Constitutional arrangements conducive to project implementation.
Output 4.1: Fully functional governance, management, monitoring and reporting systems.	<ul style="list-style-type: none"> • Project implemented on schedule with performance ratings of satisfactory or better. • Increasing measures of institutional capacity. 	<ul style="list-style-type: none"> • Supervision and implementation support mission reports, and audit reports. • Formal institutional capacity assessments (eg OCAT b/) 	<ul style="list-style-type: none"> • It will be possible to recruit and retain suitably qualified project staff.
Output 4.2: Knowledge about NRM effectively managed and disseminated to stakeholders.	<ul style="list-style-type: none"> • Increasing dissemination and use by stakeholders of knowledge generated by project. • Regional knowledge centres effectively networked. 	<ul style="list-style-type: none"> • Number of information materials produced and distributed project-wide as monitored by M&E. • Reports of regional KM. • Surveys on awareness of sustainable NRM. 	<ul style="list-style-type: none"> • Other partners will cooperate with knowledge management systems.

a/ All indicators to be gender disaggregated

b/ Organisational Capacity Assessment Tool