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Investing in rural people

President's report

Proposed loan and grant to the Republic of Kenya and proposed grant under the country-specific grants window to the Food and Agriculture Organization of the United Nations for the Kenya Cereal Enhancement Programme – Climate-Resilient Agricultural Livelihoods Window (KCEP-CRAL)

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Contents

Abbreviations and acronyms	ii
Financing summary	iii
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	2
II. Programme description	2
A. Programme area and target group	2
B. Programme development objective	3
C. Components/outcomes	3
III. Programme implementation	4
A. Approach	4
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	5
D. Financial management, procurement and governance	5
E. Supervision	6
IV. Programme costs, financing and benefits	6
A. Programme costs	6
B. Programme financing	7
C. Summary benefit and economic analysis	8
D. Sustainability	8
E. Risk identification and mitigation	9
V. Corporate considerations	10
A. Compliance with IFAD policies	10
B. Alignment and harmonization	10
C. Innovations and scaling up	11
D. Policy engagement	11
VI. Recommendation	12
Annex	
Negotiated financing agreement	13
Appendix	
Logical framework	

Abbreviations and acronyms

ASALs	arid and semi-arid lands
ASAP	Adaptation for Smallholder Agriculture Programme
CA	conservation agriculture
CRAL	Climate-Resilient Agricultural Livelihoods Window
FAO	Food and Agriculture Organization of the United Nations
GAP	good agricultural practice
KCEP	Kenya Cereal Enhancement Programme
KCEP-CRAL	Kenya Cereal Enhancement Programme – Climate-Resilient Agricultural Livelihoods Window
M&E	monitoring and evaluation
PCU	programme coordination unit
RB-COSOP	results-based country strategic opportunities programme
RBA	Rome-based agency
RIMS	Results and Impact Management System
WFP	World Food Programme

Republic of Kenya

Kenya Cereal Enhancement Programme – Climate-Resilient Agricultural Livelihoods Window (KCEP-CRAL)

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Kenya
Recipient:	Food and Agriculture Organization of the United Nations (FAO)
Executing agency:	State Department of the Ministry of Agriculture, Livestock and Fisheries
Total KCEP-CRAL cost:	US\$118.0 million
Amount of IFAD loan:	SDR 43.85 million (equivalent to approximately US\$61.8 million)
Amount of Adaptation for Smallholder Agriculture Programme (ASAP) grant:	SDR 7.10 million (equivalent to approximately US\$10.0 million)
Amount of IFAD grant to FAO:	US\$2.0 million
Terms of IFAD loan:	Highly concessional
Cofinancier:	European Union
Amount of cofinancing:	European Union: EUR 9.5 million (equivalent to US\$11.7 million)
Terms of cofinancing:	Grant
Contribution of borrower/recipient:	US\$1.5 million
Contribution of beneficiaries:	Beneficiaries: US\$29.1 million Financial institutions: US\$1.9 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 financing to the Republic of Kenya and to the Food and Agriculture Organization of the United Nations for the Kenya Cereal Enhancement Programme – Climate-Resilient Agricultural Livelihoods Window (KCEP-CRAL), as contained in paragraph 51.

Proposed loan and grant to the Republic of Kenya and grant under the country-specific window to the Food and Agriculture Organization of the United Nations for the Kenya Cereal Enhancement Programme – Climate-Resilient Agricultural Livelihoods Window (KCEP-CRAL)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Socio-economic background. Kenya has a total land area of 582,646 km² and an estimated population of 43 million people. High fertility combined with declining mortality has contributed to a population growth rate estimated at 2.6 per cent. Kenya's arid and semi-arid lands (ASALs) make up more than 80 per cent of the country's land mass and are home to approximately 36 per cent of its population. The remaining 64 per cent of the population lives in medium- and high-potential areas in the central and western parts of the country, where the population density is up to ten times the national average of 69 people/km². In October 2014, Kenya became a low-middle-income country. Despite uncertainties in the period leading up to elections, rising insecurity and erratic weather, growth is expected to continue in the next five years at an annual average of 5.9 per cent, facilitated by ongoing infrastructure development. However, the challenges of poverty and income inequality remain.
2. Agriculture and smallholder farming. The agriculture sector is the backbone of Kenya's economy, employing 70 per cent of the rural population and accounting for 65 per cent of export earnings. However, its share of GDP has declined from nearly 40 per cent in the 1970s to 25.3 per cent in 2013. Production of industrial and food crops and horticulture accounts for 82 per cent of agricultural GDP and 94 per cent of export earnings from agriculture. The remaining three subsectors of agriculture – livestock, fisheries and forestry – account for the remaining 18 per cent of agricultural GDP and 8 per cent of export earnings from agriculture, with significant potential for added growth.
3. Rural poverty. The poverty rate in Kenya dropped from 52.2 per cent in 1997 to 45.2 per cent in 2009,¹ and the Human Development Report 2013 ranked the country 145th of 186 rated, with a human development index of 0.519.² Over 75 per cent of Kenya's population lives in rural areas, where, in 2009, poverty was estimated at 50 per cent of the population. ASALs have the lowest development indicators and the highest incidence of poverty in the country.

¹ Kenya Integrated Household Budget Survey (KIHBS), 2005/06; Exploring Kenya's Inequality (Kenya National Bureau of Statistics and Society for International Development, 2013).

² *Human Development Report 2013* (New York: United Nations Development Programme, 2013), p. 146.

4. Food security and nutrition. Food security remains a major challenge for the Government of Kenya. According to the Global Hunger Index,³ Kenya remains a food-insecure country despite a slight reduction in hunger. Approximately 10 million Kenyans suffer from chronic food insecurity and poor nutrition.
5. Vulnerability to climate change. According to the Stockholm Environment Institute,⁴ if climate change in Kenya is not addressed, the economic costs of its impact are estimated at 3 per cent of GDP per year by 2030, and could reach 5 per cent by 2050. The agriculture sector, which contributes over 25 per cent of annual GDP, is particularly affected by changing climatic conditions. Nearly 98 per cent of crop production is rainfed,⁵ and almost 50 per cent of animal production occurs in ASALs. The increased incidence of drought and unreliable rainfall are expected to significantly affect the sector.

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

6. Programme rationale. Kenya is a food-deficit country that imports up to 20 per cent of its annual cereal requirements. Improvement in cereal production, including maize, sorghum, millet and associated pulses, is constrained by the limited adoption of improved crop technologies and practices. ASALs are an important producing area: they account for 30 per cent of cereal production and 54 per cent of pulses produced in the country. Semi-arid areas have a comparative advantage in the production of pulses, accounting for 99 per cent of the production of pigeon pea, 95 per cent of green gram, 93 per cent of cowpea and 60 per cent of millet. Semi-arid areas are also central to the production of sorghum, accounting for 48 per cent of the total. In addition, 37 per cent of beans and 26 per cent of maize are produced in semi-arid lands.
7. Alignment with government priorities and IFAD RB-COSOP. The KCEP-CRAL is consistent with the country's agriculture-sector development strategy 2010-2020. The strategy's main objectives are to achieve an agricultural growth rate of 7 per cent per year and reduce food insecurity by 30 per cent by promoting innovative, commercially oriented and climate-smart modern agriculture. The programme is also aligned with IFAD's results-based country strategic opportunities programme (RB-COSOP) 2013-2018, which recognizes that Kenya's food requirements go beyond increased food production in high- and medium-potential areas, and calls for increased production in ASALs. Finally, IFAD's support in ASALs is guided by its Climate Change Strategy and Environment and Natural Resource Management Policy. IFAD will mobilize resources from its Adaptation for Smallholder Agriculture Programme (ASAP) to assist smallholders in improving their livelihoods and becoming more resilient to climate change in the fragile ASAL ecosystem.

II. Programme description

A. Programme area and target group

8. Programme area. The programme area covers eight semi-arid counties in the eastern and coastal regions of Kenya, with a combined population of over 5 million people: Embu, Tharaka Nithi, Kitui, Machakos, Makueni, Taita Taveta, Kwale and Kilifi. These counties were included based on: (i) agroecological suitability and production potential of maize, sorghum, millet and associated pulses, which are important to Kenya's food security; (ii) incidence of poverty; (iii) vulnerability to climate change; (iv) geographical concentration to maximize impact; and (v) presence of similar development programmes (to avoid duplication). Within these counties, 25 subcounties will be selected at start-up using the same criteria.

³ International Food Policy Research Institute, 2014.

⁴ Stockholm Environment Institute, 2009.

⁵ World Resources Institute et al., 2007.

9. Target group. The KCEP-CRAL will reach 100,000 smallholder farmers whose livelihoods depend on maize, sorghum, millet and associated pulses, including:
 - (a) 60,000 food-insecure smallholder farmers, who will be supported in graduating from recurring food insecurity and climate vulnerability to food security and then to market-oriented commercial farming; and
 - (b) 40,000 smallholder subsistence farmers, who will be supported in graduating into commercial farming.
10. Of these 100,000 smallholder farmers, the programme aims to sustainably lift 80,000 out of poverty (80 per cent of targeted farmers). There will be a special focus on woman-headed households and on youth, given the constraints they face in accessing agricultural services and inputs. The programme will also empower county governments and communities to manage their natural resources more sustainably and consensually, and will build their resilience to climate change through community investments. A secondary target group will consist of stakeholders along agricultural value chains – such as agro-dealers, private extension services, buyers, processors and lead farmers providing support services to smallholders – and who will facilitate smallholder access to enhanced agricultural services.

B. Programme development objective

11. The overall development goal of the KCEP-CRAL is to reduce rural poverty and food insecurity among smallholders in Kenya's ASALs by developing their economic potential, while improving their natural resource management capacity and resilience to climate change in an increasingly fragile ecosystem. This goal will be pursued through: (i) graduation of smallholder farmers to commercially oriented, climate-resilient agricultural practices through improvements in productivity, post-production management practices and market linkages for targeted value chains; and (ii) empowerment of county governments and communities to sustainably and consensually manage their natural resources and build resilience to climate change.

C. Components/outcomes

12. Programme components. The KCEP-CRAL is structured around three technical components, supported by programme management:
13. Component 1. Capacity-building for climate-resilient productivity enhancement and natural resource management. Through an e-voucher platform giving smallholder farmers access to improved agricultural inputs and technologies, the programme will enhance farmers' productivity with a view to commercialization. Activities in this component will support farmers in establishing productive and climate-resilient crop enterprises suited to ASALs, and in improving productivity through the adoption of good agricultural practices, such as conservation agriculture and associated water conservation practices. The programme will also support targeted counties in planning adaptation strategies, adopting sustainable natural resource management practices and building resilience to climate change.
14. Component 2. Post-production management and market linkages. The programme aims to support farmers in capitalizing on productivity gains by promoting improved on-farm grain handling and management, access to storage, and warehouse receipt systems. These activities are expected to increase smallholders' access to markets and build their capacity to sell their produce at more favourable prices.
15. Component 3. Financial services. This component is designed to: link farmers to financial services in order to boost yields and income for reinvestment in their farming businesses; and build the capacity of value-chain stakeholders, including youth, to profitably engage in the provision of agricultural services.

III. Programme implementation

A. Approach

16. The KCEP-CRAL is an expansion to ASALs of the Kenya Cereal Enhancement Programme (KCEP), which began in April 2014 through a partnership involving the Government, the European Union and IFAD. Its programme approach is based on an expanded strategic partnership of the Government, the European Union and the United Nations Rome-based agencies (RBAs): IFAD, FAO and the World Food Programme (WFP). This partnership builds on each partners' comparative advantage in supporting farmers' graduation from food insecurity to market-oriented farming.
17. Within the partnership, WFP will provide support to food- and nutrition-insecure farmers. With this support, households can gradually build productive assets and acquire agricultural production and risk management skills to meet basic food needs. IFAD will support subsistence farmers in graduating to market-oriented farming by addressing constraints on production, post-harvest management, processing and marketing. Through the ASAP Trust Fund, IFAD will also support farmers' investments in improved natural resource management and resilience to climate change. Throughout this process, FAO will support farmer groups and county governments in adopting good agricultural practices, including conservation agriculture, while the European Union will sustain the achievement of programme objectives by providing additional funding for implementation through IFAD and FAO.
18. The programme approach encompasses an innovative public/private partnership with financial institutions that aims to expand access to financial services as beneficiaries graduate from subsidized support to market-oriented farming. Natural resource management and climate change adaptation are mainstreamed in each component to ensure that programme interventions are sustainable and improve the resilience of targeted smallholders. Finally, while the programme will support targeted households in meeting their cereal needs and in producing a surplus for markets, WFP will support the transfer of good nutrition practices to households through its protracted relief and recovery operation.

B. Organizational framework

19. Implementation framework. The lead agency for programme implementation is the Ministry of Agriculture, Livestock and Fisheries. This agency will be responsible for coordinating programme implementation, supported by a programme coordination unit (PCU) for IFAD-funded activities, and liaising with FAO and WFP focal points for activities carried out by these agencies. A steering committee chaired by the Principal Secretary of the State Department of Agriculture will be set up at the national level to provide oversight and strategic guidance of implementation. To operationalize the RBA partnership, an RBA technical coordination group will comprise the PCU coordinator and FAO and WFP representatives. The group will be responsible for annual planning, budgeting, mobilizing RBA contributions to the programme and identifying opportunities for collaboration with other donor-funded activities in target counties.
20. Grant to FAO for capacity-building of county structures. At the local level, programme implementation will be aligned to Kenya's devolution framework, with the counties as primary implementers. Given the limited capacity of newly set up county government structures, IFAD will provide FAO with a grant to build the capacity of county agricultural offices to plan, execute and monitor agricultural services and investments within the County Integrated Development Plan:
 - (i) A dedicated RBA implementation support team in each target county will plan, execute and monitor agricultural services in the context of the KCEP-CRAL. Each county's support team will be composed of a lead technical

support officer and a national United Nations volunteer – both with an agribusiness and programme management background. These experts will work with FAO and WFP programme officers, and with the National Drought Management Authority coordinator at the county level.

- (ii) Capacity-building of county agricultural offices will strengthen the outreach of agricultural extension agents in delivering agricultural services to farmers. This includes training packages and cost provisions for agricultural services to farmers in the context of programme implementation.

21. A memorandum of understanding will be signed with WFP to define roles and responsibilities in programme execution. The agreement between the European Union and IFAD will be revised to reflect the European Union's increased KCEP contribution to cover the CRAL window. The Union has also entered into a contribution agreement with FAO to disseminate good agricultural practices, including conservation agriculture, in the framework of the programme.

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

22. Programme planning. Programme planning will follow a bottom-up and gender- and-youth sensitive approach at the county level. Throughout the programme's seven-year implementation period, the PCU will support counties in sensitizing and mobilizing stakeholders, and in requesting support. Eligible farmer and county requests for programme support will be included in the KCEP-CRAL annual workplan and budget (AWP/B), which will conform to the Government's planning cycle. For community-level investments, participatory rural appraisals will be carried out to facilitate the formation of community-based organizations, which will oversee implementation. Planning at the county level will be reflected in the County Integrated Development Plan.
23. Monitoring and evaluation, and knowledge management. The programme's development goals will be monitored by a robust system, which will be aligned with Kenya's National Integrated Monitoring and Evaluation System and in compliance with IFAD's Results and Impact Management System (RIMS). RIMS is capable of measuring results in terms of climate-change resilience, natural resource management and the graduation of smallholders.

D. Financial management, procurement and governance

24. Financial management. To ensure effective financial oversight, a programme finance team will be set up at the lead national agency. In addition, there will be an accountant in each of the three regions covered by the programme. At the county level, an accountant from the National Treasury will be responsible for programme financial management.
25. Internal controls. To complement government mechanisms, the following internal controls will be instituted: (i) the PCU finance/administration manager will be an agent (non-transacting) on all programme county and regional bank accounts; (ii) at the county level, the national treasury accountant will be a signatory to the programme bank account, together with the designated county programme coordinator; and (iii) budget control will be supported through the programme accounting software and the use of commitment ledgers (sometimes called vote books) at the county level.
26. Accounting systems, policies and procedures. An off-the-shelf accounting package with the ability to generate expenditure trends by component, category, and activities in United States dollars, euro and Kenyan shillings will be used. Development of programme uniform coding (chart of accounts) will be a joint effort by the PCU finance team, those responsible for monitoring and evaluation, and technical officers.

27. Financial reporting and monitoring will be conducted in accordance with International Public-Sector Accounting Standards on a cash basis. In addition to annual audited financial statements, IFAD will require semi-annual interim financial reports.
28. The grant to FAO will be disbursed based on AWP/Bs. In addition, FAO will submit statements of expenditure with respect to the use of at least 75 per cent of the immediately preceding advance (and 100 per cent of previous advances). FAO will provide regular reports to IFAD, including six-month unaudited financial reports, and will submit a copy of FAO audited financial statements that cover any part of the grant proceeds within six months following the official publication of FAO's audited statements.
29. Procurement. With the enactment of the Public Procurement and Disposal of Assets Act and the Public Procurement and Disposal Regulations, Kenya has established a sound legal framework for public procurement with clear hierarchical distinctions. The legal and regulatory framework of the Public Procurement and Disposal of Assets Act will be used in programme procurement. KCEP-CRAL procurement provisions will build on the Ministerial Tender Committee of the Ministry of Agriculture, Livestock and Fisheries. Items common across more than one county will be procured nationally in bulk; contract award decisions will be made by that committee. For activities such as spot road improvements and construction of storage facilities that cannot be bulked and procured nationally, the KCEP-CRAL will rely on the County Service Delivery Coordinating Unit Tender Committee, as the legal authority to approve contract awards, and on the County Governments Procurement Regulations.

E. Supervision

30. The programme will be jointly supervised by IFAD and the lead agency, with the participation of FAO, WFP and the European Union. One supervision mission and one follow-up mission will be conducted each year to review the programme approach and its effectiveness. Special attention will be given to reviewing the effectiveness of the RBA partnership in the graduation of farmers.

IV. Programme costs, financing and benefits

A. Programme costs

31. The total investment and incremental recurrent costs of the KCEP-CRAL are estimated at US\$118.0 million, including physical and price contingencies. Programme investments by component are:
 - Component 1. Capacity-building for climate-resilient productivity enhancement and natural resource management accounts for US\$11.1 million, representing 9.4 per cent of total base costs.
 - Component 2. Post-production management and market linkages accounts for US\$8.8 million, representing 7.5 per cent of total base costs;
 - Component 3. Financial services, including the e-voucher scheme, accounts for US\$77.7 million, representing 65.8 per cent of total base costs; and
 - Programme management accounts for US\$11.7 million, representing 9.9 per cent of total base costs.
32. In addition, preparatory activities and implementation support at the county level accounts for US\$8.7 million (7.4 per cent of total base costs).

Table 1
Components by Financiers

(US\$ '000)	GoK	IFAD	ASAP	IFAD	EU add-on	Financial	Beneficiaries	Total
	Amount	Loan	Grant	Grant	Amount	Institutions		
Preparatory activities/ Implementation Support and Capacity-building at county-level	462	5 124	-	2 000	1 134	-	-	8 719
Components								
A. Capacity building for climate-resilient productivity enhancement and NRM								
Adoption of improved farming practices including GAP and CA	24	-	-	-	1 086	-	-	1 110
Community-based sustainable NRM and adaptation to Climate Change	-	-	10 000	-	-	-	-	10 000
Subtotal	24	-	10 000	-	1 086	-	-	11 109
B. Post-Production Management and Market Linkages								
Strengthening of farmer organizations and post-harvest management	282	3 360	-	-	-	-	173	3 815
Market Linkages and value addition	37	3 361	-	-	-	-	1 579	4 977
Subtotal	320	6 721	-	-	-	-	1 752	8 793
C. Financial Services								
E-voucher platform for productivity enhancement	-	37 237	-	-	7 142	1 860	26 212	72 451
Value Chain Financing	246	3 295	-	-	543	-	1 172	5 255
Subtotal	246	40 532	-	-	7 685	1 860	27 384	77 706
E. Programme Management	500	9 400	-	-	1 781	-	-	11 680
Total PROGRAMME COSTS	1 551	61 776	10 000	2 000	11 686	1 860	29 136	118 008

Notes: GAP - good agricultural practice CA- conservation agriculture

Table 2
Expenditure Accounts by Financiers

(US\$ '000)	GoK	IFAD Loan	ASAP Grant	IFAD Grant	EU add-on	Financial	Beneficiaries	Total
	Amount	Amount	Amount	Amount	Amount	Institutions		
I. Investment Costs								
A. Works	231	4 119	-	-	-	-	983	5 334
B. Vehicles	214	905	-	187	291	-	-	1 597
C. Equipments & Materials	274	2 544	521	61	606	-	390	4 395
D. Consultancies	316	3 939	2 754	-	1 475	-	66	8 550
E. Trainings	516	4 657	3 125	-	-	1 030	71	9 399
F. Grants and Subsidies	-	36 299	3 600	-	7 111	829	27 626	75 465
Total Investment Costs	1 551	52 463	10 000	248	9 482	1 860	29 136	104 739
II. Recurrent Costs								
A. Salaries and Allowances	-	6 671	-	1 752	1 427	-	-	9 850
B. Operating Costs	-	2 642	-	-	777	-	-	3 419
Total Recurrent Costs	-	9 313	-	1 752	2 204	-	-	13 269
Total PROGRAMME COSTS	1 551	61 776	10 000	2 000	11 686	1 860	29 136	118 008

B. Programme financing

33. The total costs of the KCEP-CRAL window will be financed by the Government, an IFAD loan, an ASAP grant, an IFAD grant under the country-specific window to FAO, a European Union contribution through IFAD, financial institutions and beneficiaries as follows:

- The Government will finance taxes and duties valued at US\$1.5 million (representing 1.3 per cent of the KCEP-CRAL window).
- The IFAD loan to the Republic of Kenya, estimated at US\$61.8 million (52.3 per cent of the KCEP-CRAL window), will finance start-up activities, capacity-building of farmer organizations, post-harvest management activities, market linkage and value chain strengthening, and programme management costs.
- The ASAP grant, estimated at US\$10.0 million (8.5 per cent of the KCEP-CRAL window), will finance mainstreaming of natural resource management and climate resilience throughout the programme.
- The IFAD grant to FAO, estimated at US\$2.0 million (1.7 per cent of the KCEP-CRAL window), will be dedicated to capacity-building and the costs

incurred by county agriculture offices delivering agricultural services to farming communities.

- The European Union additional contribution through IFAD is valued at US\$11.7 million, corresponding to EUR 9.5 million (9.9 per cent of the KCEP-CRAL window).
- Finally, the contribution of financial institutions to the programme's e-voucher scheme and related financial services is estimated at US\$1.9 million (1.6 per cent of the KCEP-CRAL window). The beneficiary contribution is assessed at US\$29.1 million (24.7 per cent of the KCEP-CRAL window).

C. Summary benefit and economic analysis

34. Overall, the KCEP and its CRAL window will support 140,000 smallholder farmers in attaining food security and graduating into market-oriented commercial farming. Through the CRAL window, 100,000 smallholder farmers in Kenya's ASALs have been targeted. The KCEP-CRAL will provide opportunities for increased returns on smallholder agricultural production and marketing, with direct benefits including:

- Increased yields from improved agricultural technologies – including conservation agriculture and good agricultural practices – and strengthened extension systems;
- Increased climate resilience through adapted varieties and technologies, better climate information and community resilience investments;
- Increased quality of marketable produce from post-harvest management, training and access to equipment;
- Higher prices as a result of aggregation from village storage facilities and other grain-bulking structures;
- Labour-saving technologies such as the use of herbicides (compared with conventional weeding) and minimum tillage/direct seeding;
- Value addition through demonstrations of novel processing opportunities and facilitation of linkages between business owners and financial institutions;
- Efficiency gains as a result of road spot improvements; and
- Incremental tax revenues generated for the central Government and county governments from increased volumes of taxable production.

35. Economic analysis shows that the programme has the potential to generate an economic rate of return of 15 per cent over a 20-year period. Benefits will accrue to a range of stakeholders across many value chains, making the entire investment even more viable and spreading its impact across the entire nation through increased employment and tax revenues. Thus the actual economic rate of return will likely be higher than the 15 per cent reported. Sensitivity analysis concluded that the programme's economic rate of return is relatively stable. It is estimated at 8.3 per cent if costs increase by 10 per cent, and at 13.3 per cent if benefits decrease by 10 per cent.

D. Sustainability

36. The sustainability of programme investments and development results will be ensured by:

- Mainstreaming natural resource management and climate-change adaptation;
- Promoting conservation agriculture and good agricultural practices;
- Empowering county governments and communities for sustainable natural resource management and resilience to climate change;

- Building the capacity of stakeholders; and
 - The e-voucher scheme and inclusive financial services.
37. At the institutional level, financial services, managed by financial institutions, will be provided to stakeholders through a public/private partnership. This will enable these institutions to expand their client base while they contribute to the sustainable financial inclusion of ASAL smallholders. Investments by financial institutions as programme partners are good indications of financial sustainability. The relationship established between financial institutions and programme beneficiaries will endure beyond the programme's lifespan as these institutions continue to provide beneficiaries with improved financial services.

E. Risk identification and mitigation

Risks	Mitigation measures
Droughts or floods affect expression of demand among target communities.	<ul style="list-style-type: none"> • Mainstream resilience packages in programme activities
Climate-related risks hinder attainment of programme objectives.	<ul style="list-style-type: none"> • Strengthen community-based resilience systems • Mainstream climate resilience in programmes, plans and policies
Weather variability and crop failure discourage financial providers from participating in the programme.	<ul style="list-style-type: none"> • Assess feasibility of crop insurance schemes. Strengthen climate information services and climate-based extension messages for smallholders
Low penetration of financial service providers and cultural beliefs hinder participation by target groups.	<ul style="list-style-type: none"> • Raise awareness • Link target groups to contract farming and outgrower schemes
Capacity of devolved structures to manage implementation of activities is weak.	<ul style="list-style-type: none"> • Embed capacity-building and implementation support to county structures for the programme's implementation organizational framework and activities • Empower county-level authorities with resources for close monitoring, supervision, timely updates and feedback
RBA coordination for mobilizing technical and financial contributions to the programme is weak.	<ul style="list-style-type: none"> • Embed RBA joint technical coordination mechanisms at national and county levels in the programme organizational framework
Technical capacity for operationalizing programme strategies and executing programme activities is weak.	<ul style="list-style-type: none"> • Provide counties (PCU) with operational strategies and technical tools for programme execution under each component • Carry out activities requiring specific technical competences through specialized partners or service providers in collaboration with counties. Identify partners with specialized expertise for each component
Exchange rate fluctuates	<ul style="list-style-type: none"> • Conduct regular multi-currency monitoring and reporting of programme costs
Fiduciary risks: Kenya's Transparency International 2014 Corruption Perceptions Index was 2.5, which is an	<ul style="list-style-type: none"> • Specify external audit terms of reference, conduct rolling internal audits, utilize off-the-shelf accounting software and

Risks	Mitigation measures
indication of high risk.	disaggregate reporting by category, component and financier

V. Corporate considerations

A. Compliance with IFAD policies

38. The programme responds directly to the following objectives of the IFAD Strategic Framework 2011-2015: improved natural resources and the economic asset base; improved access to services; capacity-building of rural people to manage profitable and sustainable enterprises; opportunities for women and youth; sustainable natural resource management; and adaptation to climate change.

B. Alignment and harmonization

39. Support to developing the economic potential of ASALs is a priority in Kenya's Constitution and Vision 2030. The main goal is to fast-track their sustainable development by increasing investment and ensuring that the use of resources is reconciled with the realities of people's lives. The National Policy for the Development of ASALs recognizes that sorghum and millet are the most suitable cereals for the environment, while maize continues to be cultivated by most smallholder farmers as the primary cereal of choice.
40. The KCEP-CRAL is fully aligned with the Government's priorities for ASALs and harmonizes the efforts of major development partners – the Government, the European Union and RBAs – in support of agricultural and rural development. In line with national policies, the programme approach is adapted to the socio-economic and biophysical characteristics of ASALs: (i) frequent drought; (ii) low and unreliable rainfall; (iii) high vulnerability to climate change; (iv) fragile ecosystems; and (v) high food insecurity and poverty.
41. The programme is also fully integrated into Kenya's development partner frameworks for agricultural and rural development. It directly contributes to advancing the development results agreed by the Government and the United Nations in Kenya under Kenya's United Nations Development Assistance Framework 2014-2018: strategic result 1 – inclusive and sustainable economic growth; and strategic result 2 – environmental sustainability, land management and human security. It will also generate knowledge products on food security, approaches to graduation of smallholders to commercial farming, and climate resilience in semi-arid areas. These products will be disseminated in development partner working groups such as the Agricultural and Rural Development Donor Group and the ASALs Donor Group, in order to inform policies and programming for ASALs.
42. The programme's organizational framework for implementation is aligned with national systems. At the local level, programme implementation and RBA coordination will be aligned with Kenya's devolution framework. Counties will be the primary implementers of the programme using community-based approaches. Given the capacity gaps faced by the newly established county structures, the programme's organizational framework includes dedicated implementation support to the counties for programme execution, coordination of RBA contributions and the promotion of synergies with other donor-funded initiatives.

C. Innovations and scaling up

43. The programme incorporates innovative features such as:
- A partnership involving the Government, the three RBAs and the European Union to steer farmers' graduation from food insecurity to commercial farming, with a focus on good agricultural practices, natural resource management and resilience;
 - A partnership with Equity Bank to set up an electronic platform combining debit cards with e-vouchers to support smallholder access to new technologies and financial services;
 - Weather-based crop insurance, which will be piloted in the programme areas;
 - Technical packages that introduce farmers to innovative combinations of adapted inputs and practices for managing natural resources, which have been tested by the Kenya Agricultural and Livestock Research Organization.
44. Moreover, the KCEP-CRAL will promote business models, including new business partnerships between smallholders and buyers, governance structures and financial mechanisms for storage and processing facilities. The innovative features described above, if successfully implemented, will generate significant knowledge and the potential for replication and scaling up in Kenya and the region. Monitoring and knowledge management will thus be important in assessing and comparing performance, learning from experience and documenting achievements and good practices.

D. Policy engagement

45. The programme will generate lessons learned, good practices and innovations that inform policy dialogue on agricultural development in semi-arid areas. Specific areas of interest include: (i) adapted technical packages; (ii) inclusive business models for farmers' access to services and markets; (iii) innovative financial instruments; (iv) approaches for graduating smallholder farmers from food insecurity to commercial agriculture; and (v) increasing resilience to climate change and natural resource management. Special attention will be given to documenting the impact of synergies among the Government, RBAs, the European Union and the private sector – each of which brings comparative advantages to addressing complex agricultural and rural development challenges in ASALs.
46. Capitalizing on these synergies, as mentioned previously, the programme will generate knowledge products on food security, graduation approaches, commercial farming and resilience in semi-arid areas that will inform policy and programming in ASALs.

VI. Legal instruments and authority

47. A 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 is attached as an annex.
48. A grant agreement between the Food and Agriculture Organization of the United Nations and IFAD will constitute the legal instrument for extending the proposed grant under the country-specific window to FAO.
49. The Republic of Kenya is empowered under its laws to receive financing from IFAD and from IFAD's Adaptation for Smallholder Agriculture Programme Trust Fund, acting through IFAD in its capacity as trustee of the trust fund.
50. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

51. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Kenya in an amount equivalent to forty-three million eight hundred and fifty thousand special drawing rights (SDR 43,850,000), 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 an Adaptation for Smallholder Agriculture Programme Trust Fund grant to the Republic of Kenya in an amount equivalent to seven million one hundred thousand special drawing rights (SDR 7,100,000), 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 grant not exceeding two million United States dollars (US\$2,000,000) to the Food and Agriculture Organization of the United Nations, and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

NEGOTIATED TEXT
25 February 2015
LC/MD

IFAD LOAN No.
ASAP TRUST GRANT No.

FINANCING AGREEMENT

Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihoods Window
(KCEP-CRAL)

between the

REPUBLIC OF KENYA

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

and the

ADAPTATION FOR SMALLHOLDER AGRICULTURE PROGRAMME TRUST FUND

Signed in

on

FINANCING AGREEMENT

IFAD Loan Number: _____

ASAP Trust Grant Number: _____

Programme Title: Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL) (the "Programme")

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

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund (the "ASAP Trust")

and

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

hereby agree as follows:

Preamble

WHEREAS on 19 December 2013 the European Commission, representing the European Union (the "EC" or "EU") entered into a Contribution Agreement with the Fund (the "EC Contribution Agreement"), with reference number FED/2013/329-234, pursuant to which the Fund may, inter alia, receive a contribution for the Borrower/Recipient (the "EC Contribution") in order to implement the Kenya Cereal Enhancement Programme (the "KCEP Programme");

WHEREAS the European Commission, representing the EU, is expected to process an amendment to the EC Contribution Agreement, pursuant to which the Fund may, inter alia, receive an additional contribution for the Borrower/Recipient in order to co-finance the Programme;

WHEREAS the Fund adheres to the principles and guidelines as set out in the Financial and Administrative Framework Agreement ("FAFA") entered into between the European Community and the United Nations on 29 April 2003, and to which the Fund acceded on 27 September 2004;

WHEREAS on 19 March 2014 the Borrower/Recipient and the Fund entered into a financing agreement setting forth the terms and conditions under which the EC Contribution transferred thereto by IFAD shall be managed by the Borrower/Recipient in implementing the KCEP Programme (hereinafter "KCEP Financing Agreement").

WHEREAS the Executive Board of the Fund at its 105th session approved the establishment of an Adaptation for Smallholder Agriculture Programme Trust Fund. IFAD acts as the Administrator of the Trust Fund and in this capacity holds and administers the funds that shall from time to time be contributed thereto and any other assets and receipts of the Trust. Decisions and other actions taken by IFAD as Administrator of the Trust Fund shall be identified as taken in that capacity.

WHEREAS IFAD has agreed to extend a loan to the Borrower/Recipient for the purpose of financing the Programme, on the terms and conditions set forth in this Agreement;

WHEREAS the Borrower/Recipient acknowledges that IFAD expects to extend a grant in the approximate amount of two million United States dollars ("USD") to the Food and Agriculture Organisation of the United Nations ("FAO") as incremental funding to sustainably build the capacity of, and provide logistical support to, relevant Programme implementation offices at County level to plan, execute, and monitor agricultural services as well as investments, on the terms and conditions to be set forth in a separate agreement between the Fund and FAO ("FAO Grant Agreement");

WHEREAS IFAD, FAO and the World Food Programme ("WFP") are expected to collaborate towards the achievement of the Programme's goal and development objectives and, to this end, the Borrower/Recipient will take every reasonable measure to facilitate this collaboration and the implementation of underlying agreements between any or all such entities; and

WHEREAS, on the basis of the above and other considerations, the ASAP Trust has agreed to extend an ASAP Trust Grant to the Borrower/Recipient for the purpose of increasing the financing in respect of the Programme, 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 Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014 and as may be amended hereafter 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 the ASAP Trust shall provide an ASAP Trust Grant to the Borrower/Recipient (collectively referred to as 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 IFAD Loan is SDR 43 850 000.
 - B. The amount of the ASAP Trust Grant is SDR 7 100 000.
2. The IFAD Loan is granted on highly concessional terms and shall be free of interest but bear a service charge of three fourths of one per cent (0.75 per cent) per annum and have a maturity period of forty (40) years, including a grace period of ten (10) years.
3. The Loan Service Payment Currency for the IFAD Loan shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 July.

5. Principal and service charge of the IFAD Loan shall be payable on each 15 May and 15 November.
6. There shall be two Designated Accounts denominated in USD, one for the IFAD Loan and one for the ASAP Trust Grant, for the benefit of the State Department of Agriculture of the Ministry of Agriculture, Livestock and Fisheries in the Central Bank of Kenya or a commercial bank acceptable to the Fund. There shall also be two Programme Accounts, respectively for the IFAD Loan and for the ASAP Trust Grant in Kenyan Shillings, for the benefit of the Programme.
7. The Borrower/Recipient shall provide counterpart financing for the Programme in a minimum amount of 1 500 000 USD equivalent.

Section C

1. The Lead Programme Agency shall be the State Department of Agriculture of the Ministry of Agriculture, Livestock and Fisheries.
2. The Lead Programme Agency shall collaborate with the additional Programme Parties identified under paragraph 11, Section II, Schedule 1 hereto.
3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The IFAD Loan and the ASAP Trust Grant shall be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (i) The KCEP Financing Agreement has been suspended.
 - (ii) The Programme Implementation Manual (PIM) referred to in paragraph 8, Section II of Schedule 1 hereto or any provision thereof has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme, and the Borrower/Recipient has not taken any measure(s) to remedy the situation.
2. The following is designated as an additional ground for cancellation of this Agreement: The KCEP Financing Agreement has been cancelled at the request of either party thereto.
3. The following are designated as additional general conditions precedent to withdrawal:
 - (i) The Programme Steering Committee referred to in paragraph 2, Section II of Schedule 1 hereto has been duly established and its members appointed;

- (ii) A Senior Programme Coordinator and Key Programme Personnel have been duly selected and recruited in accordance with the relevant provisions of the PIM referred to in paragraph 8, Section II of Schedule 1 hereto;
- (iii) The Borrower/Recipient has opened the Designated Accounts and the Programme Accounts referred to in paragraph 6, Section B above;
- (iv) An accounting software has been set up for the administration of all Programme financial operations; and
- (v) The PIM has been adopted by the Lead Programme Agency in the form approved by the Fund.

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

For the Borrower/Recipient:

Cabinet Secretary
National Treasury
P.O. Box 30007-00100
Nairobi, Kenya

For the Fund:

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

For the ASAP Trust

President of the International Fund
for Agricultural Development in its capacity as Trustee
of the Adaptation for Smallholder Agriculture Programme Trust Fund
Via Paolo di Dono 44
00142 Rome, Italy

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

REPUBLIC OF KENYA

(Authorized Representative)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

FOR THE ADAPTATION FOR SMALLHOLDER AGRICULTURE
PROGRAMME TRUST FUND
PRESIDENT OF THE INTERNATIONAL FUND
FOR AGRICULTURE DEVELOPMENT IN ITS CAPACITY AS TRUSTEE
OF THE ADAPTATION FOR SMALLHOLDER AGRICULTURE PROGRAMME
TRUST FUND

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. **Target Population and Programme Area.** The Programme shall benefit some 100 000 smallholder farmers, with particular focus on women-headed households and youth, whose livelihoods revolve around maize, sorghum, millet and associated pulses. In particular, beneficiaries of Programme interventions shall be: (a) approximately 60 000 food-insecure smallholder farmers who shall be supported through a partnership with WFP to graduate from recurring food insecurity and climate vulnerability to a level of food security and then further to market-oriented commercial farming; and (b) approximately 40 000 smallholder farmers at subsistence level who shall be supported to graduate into commercial farming. The Programme shall be implemented in the eight (8) arid and semi-arid counties of Embu, Tharaka Nithi, Kitui, Machakos, Makueni, TaitaTaveta, Kwale and Kilifi, (each a "County" and, collectively, "Target Counties", "ASALs" or "Programme Area").

2. **Goal.** The overall goal of the Programme is to contribute to the reduction of rural poverty and food insecurity of smallholders in the ASALs by developing their economic potential while improving their natural resources management capacity and resilience to climate change in an increasingly fragile ecosystem.

3. **Objectives.** The development objectives of the Programme are to facilitate: (i) the graduation of smallholder farmers to commercially oriented, climate-resilient agricultural practices through improvements in productivity, post-production management practices and market linkages for targeted value chains; and (ii) the empowerment of Target Counties' governments and communities to sustainably and consensually manage their natural resources and to build their resilience to climate change.

4. **Components.** The Programme shall consist of the following four Components:

Component 1: Cereal Productivity Enhancement (Capacity-building for Climate-resilient Productivity Enhancement and Natural Resource Management). Through an e-voucher platform giving smallholder farmers access to improved agricultural inputs and technical packages, the Programme shall support farmers engaged in targeted value chains to enhance productivity in view of commercialisation. Activities implemented under this Component shall also support farmers to identify and undertake appropriate, productive and climate-resilient crop enterprises suited to the ASALs and to improve as well as stabilise productivity through adoption of good agricultural practices incorporating conservation agriculture and associated better water conservation practices. Under this Component, the Programme shall also support Target Counties and wards to plan adaptation strategies, adopt sustainable natural resource management practices, and build resilience to climate change.

Component 2: Post-harvest Management and Market Linkages. This Component aims at supporting farmers to capitalise productivity gains arising from investments made under Component 1, by promoting improved on-farm grain-handling and management, access to storage and warehouse receipt systems, increasing smallholders' access to markets, and building their capacities to sell their produce at more favourable terms and prices.

Component 3: Financial Inclusion. This Component is designed to link farmers to financial services to boost yields and income generation for re-investment in agriculture, and build the capacity of value chain stakeholders, including the youth, to engage

profitably in the provision of agricultural services through improved access to financial services.

Component 4: Programme Management. This Component aims at ensuring an efficient and cost effective use of Programme resources to achieve its development objectives.

II. Implementation Arrangements

1. The Lead Programme Agency. In its capacity as Lead Programme Agency, the State Department of Agriculture of the Ministry of Agriculture, Livestock, and Fisheries (MoALF) shall have overall responsibility for the coordination of the Programme implementation.

2. Programme Steering Committee (PSC). A Programme Steering Committee chaired by the Principal Secretary of the State Department of Agriculture shall be established at national level to provide oversight and strategic guidance on Programme implementation. The Steering Committee set up pursuant to the provisions of the KCEP Financing Agreement shall be expanded to representatives of stakeholders for the Climate Resilient Agricultural Livelihoods Window, including collaborating ministries and institutions such as the Ministry of Devolution and Planning; the NDMA; the Ministry of Environment, Water and Natural Resources; farmer organisations, the private sector, and the Target Counties' governments. The PSC shall meet semi-annually to approve the Programme's annual work plan and budget and to review progress reports; assess the effectiveness of management and partnerships; and recommend corrective measures where appropriate.

3. A Programme Coordination Unit (PCU). A Programme Coordination Unit established in the MoALF to coordinate the KCEP Programme implementation pursuant to the KCEP Financing Agreement shall be strengthened with required expertise and support staff to: (i) manage the expansion of activities to the ASALs; and (ii) support the coordination of FAO and WFP for Programme execution. The additional PCU staff, to be recruited following a transparent and competitive process with the aim of contracting a highly qualified, accountable and gender-balanced team, shall include: a senior Programme coordinator, a community mobilisation, training and gender officer, a natural resources management/climate change specialist, a senior monitoring and evaluation/knowledge management officer, and an accountant assistant. The PCU shall be responsible for developing operational strategies and tools for Programme implementation; backup of Target Counties' implementation/support teams; financial and administrative management of Programme resources; preparation of annual workplans and budgets (AWPBs); mobilisation of implementation partners and oversight of deliverables; contracting of service providers at national level and procurement of services and supplies; establishment and management of a monitoring and evaluation database for reporting on activities, outcomes and impact focusing on corrective measures to be implemented and documenting graduation targets; supporting the coordination of FAO and WFP as well as relevant committees at national and county levels for Programme implementation. The PCU shall also act as a Secretariat to the PSC.

4. Modalities of implementation of activities funded through FAO and WFP. Activities funded through FAO shall be implemented in pursuance of its Conservation Agriculture Programme funded by the EU - "Increased Productivity and Profitability of Smallholder farmers through promotion and up-scaling of GAP and CA in productive semi-arid areas of Kenya (IPP-GAP)" - which became effective in June 2014. Activities funded through WFP shall be implemented under the Recovery Component of the Protracted Relief and Recovery Operations (PRRO) Programme, which is expected to become effective in May 2015.

5. Coordination of FAO and WFP for Programme Implementation. A Technical Coordination Group (RBA-TCG) composed of the Programme Coordinator, the FAO Chief Technical Advisor and Liaison Officer, and WFP representatives supported by the PCU technical staff, shall be established. The main responsibilities of the RBA-TCG shall be to: (i) Plan respective contributions to the Programme AWPB in Target Counties to ensure complementarity and synergies; (ii) mobilize respective contributions for AWPB/Programme implementation; and (iii) identify opportunities for synergies with other donor-funded activities in Target Counties. The RBA-TCG shall meet on a quarterly basis in the first year of Programme implementation to steer coordination of FAO and WFP for Programme start-up, and subsequently on a bi-annual basis. The PCU shall integrate the contributions and recommendations of the RBA-TCG within the AWPBs prior to submission thereof to the PSC. The Programme organizational framework shall include a joint technical support team for FAO and WFP in each Target County to provide implementation support and oversight.

6. County-level Organisational Framework. Target Counties shall be responsible for: (i) community awareness and sensitisation; (ii) supporting target groups in developing their business projects for Programme support; (iii) community-based selection of target groups; (iv) participatory identification of collective priorities and their inclusion into the County Integrated Development Plan; (v) selection of County service providers; (vi) mobilisation of extension services to target groups through frontline extension workers; (vii) community mobilisation and capacity building for management of collective infrastructure supported by the Programme; (viii) financial management of Programme funding at County level; (ix) establishing linkages with local stakeholders through the County/Sub-County Agriculture Stakeholder fora; and (x) monitoring and evaluation, including preparation of progress reports on Programme execution at the County level. In each County:

- (a) A County Programme Coordinating Committee (CPCC) chaired by the Governor and/or his/her designated representative shall be established and meet quarterly to provide implementation oversight and to approve county AWPB(s) and annual progress reports. Members of the CPCC shall include representatives of the National Government, the heads of relevant Target County departments and other stakeholders involved in implementation of Programme activities;
- (b) A County Programme Facilitation Team (CPFT) led by a County Programme coordinator shall coordinate the preparation and implementation of the County AWPBs, as well as the drafting of progress reports for consolidation by the PCU. Each CPFT shall include the National Treasury Accountant who will be responsible for the Programme financial management at County level. Each CPFT shall be equipped with a vehicle and three sets of computers/accessories;
- (c) A County Service Delivery Coordinating Unit Tender Committee shall have authority to approve procurement awards in line with each County's legal framework for public procurement; and
- (d) County Extension Staff shall: (i) provide support to farmers and their organisations to identify priorities and prepare their requests for support by the Programme; (ii) deliver extension messages to farmers and their organisations; (iii) support farmers' organisations and communities to set up better organisations and structures, identify their training needs and organise trainings to strengthen their capacities in identified domains; (iv) supervise farming activities and collect performance data for transmission to the CPFT as required, for analysis; and (v) provide information on performance of contracted service providers.

7. Regional Support Sub-units. Regional support sub-units shall be established in:
- (i) Nakuru, to provide support to the Counties of Bungoma, Kakamega, Nakuru, Nandi, and Trans Nzoia in the Western Region and the Rift Valley;
 - (ii) Mbere, to provide support to the Counties of Kitui, Embu, Tharaka- Nithi, Machakos, and Makueni in the Eastern Region; and
 - (iii) Mombasa, to provide support to the Counties of Kilifi, Kwale and TaitaTaveta in the Coastal Region.

7.1. Regional Support Sub-units Staffing and Responsibilities. Regional support sub-units shall be headed by an agri-business specialist and staffed by an agronomist, an accountant, a monitoring and evaluation officer and a Programme assistant. Each regional support sub-unit shall be responsible for: (i) technical back-up to County implementation and support teams in relation to service providers and partners on Programme strategies and tools, financial management and procurement; (ii) quality review and consolidation of County AWPBs, progress reports, financial management and procurement data for transmission to the PCU; (iii) maintaining a regional monitoring and evaluation database and reporting system; (iv) periodic implementation support missions to County Programme and implementation support teams; and (v) contributing to the development of Programme national strategies and tools by providing consolidated information/feedback from the County level.

8. Programme Implementation Manual (PIM). The Programme shall be implemented in accordance with the approved AWPB and Procurement Plan and guided by the PIM, the terms of which shall be adopted by the Lead Programme Agency subject to the Fund's prior approval. The PIM shall include, among other things: (i) Terms of reference, implementation responsibilities and appointment modalities of all Programme staff and consultants; (ii) Programme operating manuals and procedures; (iii) monitoring and evaluation systems and procedures; (iv) a detailed description of implementation arrangements for each Programme component; (v) modalities for the selection of service provider(s) to be based on transparent and competitive processes; and (vi) financial management and reporting arrangements including accounting, approval of payments, financial reporting, internal controls, fixed asset management, as well as internal and external audit arrangements.

9. Mid-Term Review. The Lead Programme Agency, representatives of the Target Counties, FAO, WFP and the Fund shall jointly carry out a review of the Programme implementation no later than the fourth anniversary of the date of Entry into Force of this Agreement (the "Mid-Term Review") based on terms of reference prepared by the Lead Programme Agency and approved by the Fund. Among other things, the Mid-Term Review shall consider the performance and financial management of Programme Parties and contracted service providers, the efficacy of technical assistance and capacity building activities, the overall achievement of Programme objectives and the constraints thereon and recommend such reorientation as may be required to achieve such objectives and remove such constraints.

10. Performance-Based Agreements. The Lead Programme Agency shall enter into a performance-based agreement with each [of the] contracted service provider(s), participating financial institutions and any other party competitively selected by the Lead Programme Agency to participate in the Programme, as acceptable to the Fund. Each performance-based agreement shall specify the scope of the work to be undertaken by such entity(ies), expected deliverables, estimated budget for specific activities, modalities for the implementation of any sub-contracted activities, as well as quantified deliverables, including gender and inclusion target and indicators. Each performance-based agreement shall be: (i) monitored closely by the PCU; (ii) renewed annually based on satisfactory performance; (iii) specify that the relevant entity shall maintain a register

of assets acquired with the proceeds of the Financing; and (iv) be submitted to the Fund for its prior approval. Each performance-based agreement shall not be modified without the prior consent of the Fund.

11. Memorandum of Understanding (MoU). The Lead Programme Agency shall enter into a MoU with the governments of each of the Target Counties and with each of the Kenya Agricultural and Livestock Research Organization (KALRO), the Cereal Growers' Association (CGA), the National Drought Management Authority (NDMA), the Kenya Meteorological Services (KMS), the Centre for Training and Integrated Research in Arid and Semi-Arid Land Development (CETRAD), the Eastern Africa Grain Council (EAGC) and any other party identified by the MoALF to participate in the Programme, as acceptable to the Fund, prior to implementation of the relevant Programme activities. Among other things, each MoU shall clearly specify, the scope of the work to be undertaken, staffing and institutional arrangements to be put in place to secure successful Programme implementation, estimated budget for specific activities, reporting and audit requirements, activity tagged transfers as opposed to general cash releases, implementation records, monitoring arrangements as well as clearly defined accountability and performance evaluation criteria. The MoUs shall be monitored closely by the Lead Programme Agency and shall: (i) specify that the above listed parties shall maintain a register of assets acquired with the proceeds of the Financing; and (ii) be submitted to the Fund for its prior approval. The MoUs shall not be modified without the prior consent of the Fund.

Schedule 2

Allocation Table

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

Category	IFAD Loan Amount Allocated (expressed in SDR)	ASAP Trust Grant Amount Allocated (expressed in SDR)	Percentage Net of all taxes
I. Works	2 630 000	0	100%
II. Equipment and materials	2 210 000	330 000	100%
III. Consultancies	5 490 000	3 760 000	100%
IV. Grants and subsidies	23 180 000	2 300 000	100%
V. Salaries and allowances	4 260 000	0	100%
VI. Operating costs	1 690 000	0	100%
Unallocated	4 390 000	710 000	100%
TOTAL	43 850 000	7 100 000	

(b) The terms used in the Table above are defined as follows:

Category I "Works" includes Eligible Expenditures for construction and refurbishment of warehouses, milling facilities and road spot improvements;

Category II "Equipment and materials" includes Eligible Expenditures for vehicles; and

Category III "Consultancies" includes Eligible Expenditures for costs associated, among other things, with technical assistance, training, studies, workshops, capacity building, sensitisation and awareness campaigns, adoption and dissemination of technical technologies, mapping of soil fertility and soil nutrient requirements, coordinators and extension workers, establishment of demonstration plots, exhibition and trade fairs, surveys, peer exchange visits, development of manuals, PSC meetings, targeting and gender equality and social inclusion strategies.

Category IV "Grants and Subsidies" includes Eligible Expenditures covering the input voucher package.

(c) The proceeds of the ASAP Trust Grant shall cover: Eligible Expenditures for costs related to County Adaptation Funds and incremental financing for community climate resilient assets; the feasibility study for the agricultural insurance scheme; the meteorological equipment and technical support for the collection of meteorological data and dissemination of climate information; investments, training and technical backstopping on activities related to water conservation and management; remote sensing/geographical information system (RS/GIS) equipment; monitoring and

evaluation of natural resource management/climate change activities and the recruitment of a natural resource management/climate change specialist within the PCU.

(d) The Programme financial reporting shall cover Category of Expenditures, Components and Financier in order to enable the Fund to consolidate relevant Programme data with that pertaining to the KCEP Programme.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan Account and the ASAP Trust Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

1. **Audit of the electronic voucher system.** The Borrower/Recipient shall ensure that a specific performance audit of the e-voucher scheme(s) as implemented by the relevant service provider(s) is carried out annually by an independent qualified auditor to assess the effectiveness, economy and efficiency of the process.
2. **Gender and Youth.** The Borrower/Recipient shall ensure that women and youth are represented in the organization and management of the Programme. The Borrower/Recipient shall also ensure that women and youth beneficiaries shall be represented in all Programme activities and that they receive appropriate benefits from the Programme outputs.
3. **Operation and Maintenance.** The Borrower/Recipient shall ensure that adequate human and financial resources are provided to support the operation and maintenance of Programme-financed investments and the recurrent costs of the Programme operations both during and after the Programme Implementation Period, at least for the useful life of such investments.
4. **Counterpart Funds.** The Borrower/Recipient shall ensure that counterpart funds are clearly identifiable in the financial management system and all financial statements.
5. **Flow of Funds.** The Borrower/Recipient shall ensure that the proceeds of the IFAD Loan and of the ASAP Trust Grant are not disbursed to any of the Programme Parties until the Lead Programme Agency shall have entered into the MoU referred to in paragraph 11, Section II of Schedule 1 hereto with each such Programme Party.
6. **Operation of the Electronic Voucher System.** The Borrower/Recipient shall ensure that detailed procedures acceptable to the Fund for the operation of the electronic voucher system shall have been established before any activities thereunder are commenced.
7. **Rolling Internal Audit Programme.** The Borrower/Recipient shall ensure that: (i) an auditor acceptable to the Fund is retained to provide internal audit services to the Programme; and (ii) a sub-committee of the PSC is constituted as an audit committee responsible for approving the annual audit plan and for meeting every quarter to review the internal audit reports and management actions on the recommendations of both internal and external auditors.

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions/Risks
Goal			
Poverty and food insecurity of targeted ASAL rural smallholder households sustainably reduced	<ul style="list-style-type: none"> - 80,000 ASAL smallholder farmers food secure with improved nutrition standards, out of poverty and supported to cope with the effects of climate change¹ 	<ul style="list-style-type: none"> - National (KIHBS) household income & expenditure surveys - RIMS impact surveys - Baseline, mid-term and final food security & nutrition assessments - Livelihood and Ecosystem Resilience Assessment Tools 	<ul style="list-style-type: none"> - Stable political/ macroeconomic environment
Development Objective			
Graduation of farmers to climate resilient and commercial farming Empowerment of county governments/communities for sustainable NRM and resilience to climate change ²	<ul style="list-style-type: none"> - 80,000 ASAL smallholder farmers graduate to market-oriented commercial farming adopting climate resilient agricultural practices - 8 county governments implementing 100 ward level sustainable NRM and climate-change resilience community plans 	<ul style="list-style-type: none"> - Household income & expenditure surveys - Food security and nutrition assessments - RIMS impact surveys (baseline and end-term) 	<ul style="list-style-type: none"> - Successful public – private - partnership
Outcome 1 Sustainable increase in production of maize, sorghum, millet and associated pulses among targeted farmers	<ul style="list-style-type: none"> - Productivity increase: 80% for maize and sorghum; 50% for millet, beans, cowpeas, green grams and pigeon peas - 80,000 ha under good agricultural practice (GAP)/conservation agriculture (CA) producing targeted crops - % of farmers reporting yield increase - % of farmers adopting recommended technologies 	<ul style="list-style-type: none"> - Household income & expenditure surveys - Food security and nutrition assessments - RIMS impact surveys (baseline and end-term) 	<ul style="list-style-type: none"> - National and county government adoption of CA policy for inclusion; - PPP in extension services
Outputs 1.1 Targeted farmers adopt climate-resilient improved farming practices including CA	<ul style="list-style-type: none"> - 80,000 ASAL farmers trained on CA/GAP and NRM adopt improved agricultural practices through e-voucher technical package and extension services including climate information for enhanced agricultural productivity - 250 extension service providers and 100 agro-dealers capacity for provision of GAP/CA extension services and inputs strengthened 	<ul style="list-style-type: none"> - Programme M&E - Participating bank data base/records - Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> - Private sector willingness to provide market-led incentives in adoption of CA
1.2 Targeted counties and communities adopt sustainable NRM adapted to climate change	<ul style="list-style-type: none"> - 8 county sustainable NRM and climate change adaptation plans developed (with 100 Ward level community resilience NRM plans); and county/community officials trained - USD 7.5m ASAP programme resources invested in watershed scale community assets with productive benefits up to 80,000 ha³ - 8 County Adaptation Funds operational with ward plans and associated NRM activities funded on 80,000 	<ul style="list-style-type: none"> - Programme M&E - Participating bank data base/records - Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> - Programme technical support in place at County and community level

¹ Related to RIMS 1.8.5

² For the purposes of this programme, a working definition of a climate-resilient community will be: "A community where programme beneficiaries are engaging in climate-resilient agricultural practices, are engaged in natural resource management, benefit from climate-related extension messages and climate information and have contributed to ward level community resilience plans

³ Related to RIMS 1.1.7

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions/Risks
	<ul style="list-style-type: none"> ha with productive benefits 8 County climate information services functional and providing regular climatic information to ward groups to refine farm/ agronomic plans At least 2 staff per County operational in RS/GIS CC/NRM training given to at least 12 extension agents and 24 farmer groups each coached county Technical guidelines developed and production of instructional videos on CC/NRM disseminated 		
<u>Outcome 2</u> Improved post-harvest management and market linkages for farmers	<ul style="list-style-type: none"> 80,000 farmers organized in groups with established linkages with bulk buyers Post-harvest grain losses reduced from 30% to 5% for 80% of targeted r farmers 	<ul style="list-style-type: none"> Programme M&E Participating bank data base/records Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> Demand for agricultural products will be sufficient to absorb increased supplies from the smallholder sector
<u>Outputs</u> 2.1 Targeted farmers adopt improved post-harvest management of grains	<ul style="list-style-type: none"> 80,000 farmers organized in groups; trained on harvest-and post-harvest management; and receive basic equipment for improved post-harvest management of grains. 250 threshing/shelling service providers trained and their capacity to provide services to farmers enhanced 	<ul style="list-style-type: none"> Programme M&E Participating bank data base/records Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> Farmer commitment to participate in groups
2.2 Market access for participating farmers	<ul style="list-style-type: none"> 250 production cluster-level farmer associations established and linked to a structured grain trading system comprising 250 collection centres and 100 certified warehouses with WRS services 100 road spot improvements completed linking production clusters to grain aggregation centres 	<ul style="list-style-type: none"> Programme M&E Participating bank data base/records Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> Bill on WRS is passed into law to provide effective regulatory framework
<u>Outcome 3</u> Improved access to financial services for targeted farmers	<ul style="list-style-type: none"> 80,000 smallholder farmers with active bank accounts and using WRS, savings, other financial services and crop insurance services 	<ul style="list-style-type: none"> Programme M&E Participating financial institutions data base/records and reports Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> Effective PPP with financial institutions
<u>Outputs:</u> 3.1 E-voucher financing system for smallholder farmers developed	<ul style="list-style-type: none"> 100 000 farmers trained on financial literacy and have accessed inputs subsidy (through e-voucher scheme) 250 agro-dealers trained and accredited as agents by participating financial institutions 	<ul style="list-style-type: none"> Programme M&E Participating financial institutions data base/records and reports Programme baseline, mid- and end-term evaluations 	<ul style="list-style-type: none"> Sufficient number of agro-dealers for competitive services Agro-dealers supply required quantities of quality inputs Adapted agricultural insurance product and insurance companies willing to offer the product
3.2 Financial services to other key players improved	<ul style="list-style-type: none"> 250 agro-dealers, 2,000 agricultural services providers, and 100 value addition enterprises access value chain financing 	<ul style="list-style-type: none"> Programme M&E Participating financial institutions data base/records and reports Programme baseline and evaluations 	<ul style="list-style-type: none"> Adapted Financial institutions products Engagement of Value chain actors