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Investing in rural people

## **Republic of Kenya**

### **Kenya Livestock Commercialisation Project**

#### **Negotiated financing agreement**

Executive Board — 130<sup>th</sup> Session  
Rome, 8-11 September 2020

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**For: Information**

## **Negotiated financing agreement:**

### **"Kenya Livestock Commercialisation Project"**

(Negotiations concluded on 28 August 2020)

Loan No: \_\_\_\_\_

Project name: Kenya Livestock Commercialisation Project ("KeLCoP"/ "the Project")

The Republic of Kenya (the "Borrower")

and

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

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

**WHEREAS** the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

**WHEREAS**, the Fund has agreed to provide financing for the Project;

**NOW THEREFORE**, the Parties hereby agree as follows:

#### **Section A**

1. The following documents collectively form this Agreement: this document, the Project 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 December 2018, 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, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a Loan (the "Financing") to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

#### **Section B**

1. The amount of the Loan eligible to highly concessional terms is EUR 23 105 000.

The Loan granted on highly concessional terms shall be free of interest but shall bear a fixed service charge as determined by the Fund at the date of approval of the Loan by the Fund's Executive Board, payable semi-annually in the Loan Service Payment Currency. The Loan shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board. The principal of the Loan granted on highly concessional terms will be repaid at four and half per cent (4.5%) of the total principal per annum for years eleven (11) to

thirty (30), and one per cent (1%) of the total principal per annum for years thirty-first (31) to forty (40).

2. The amount of the Loan eligible to blend terms is EUR 23 105 000.

The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.

3. The Loan Service Payment Currency shall be in Euro (EUR).

4. The first day of the applicable Fiscal Year shall be 1st July.

5. Payments of principal and interest and service charge shall be payable on each 1 May and 1 November.

6. The arrangements for the Designated Accounts denominated in EUR (the "Designated Accounts") opened by the Borrower through which the proceeds of the Financing shall be channelled as well as the dedicated bank account for receipt of counterpart funding and the operational bank accounts shall be detailed in the Letter to the Borrower. The Borrower shall inform the Fund of the officials authorized to operate the Designated Accounts.

7. The Borrower shall provide counterpart financing for the Project in the amount of EUR 16.01 million of which taxes and duties account for EUR 10.62 million (13.5 per cent), cash for EUR 1.24 million (1.6 per cent) and an in-kind contribution for EUR 4.15 million (5.2 per cent).

## **Section C**

1. The Lead Project Agency shall be the State Department for Livestock, a department within the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

2. Additional Project Parties are described in Schedule 1, Paragraphs 10 and 11.

3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree in writing on a different date for the Mid-Term Review of the implementation of the Project.

4. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.

5. Procurement of goods, works and services financed by the Financing shall be carried out:

(a) in accordance with the provisions of the Borrower's procurement laws, namely, Public Procurement and Asset Disposal Act, 2015 and the Regulations made thereunder as may be amended from time to time, to the extent such are consistent with the IFAD Procurement Guidelines.

(b) National systems will be applied to all procurement activities.

## **Section D**

1. The Fund will administer the Loan and undertake a full supervision of the Project, at least once a year.

## **Section E**

1. The following are designated as additional grounds for suspension of this Agreement:
  - (a) The Project Implementation Manual (PIM) and/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, has determined that it has had, or is likely to have, a material adverse effect on the Project.
  - (b) Key Project Management and Coordination Unit (PMCU) staff (Project Coordinator and the Financial Controller) have been appointed, transferred or moved from the PMCU without the non-objection of the Fund;
2. The following are designated as additional (general/specific) conditions precedent to withdrawal:
  - (a) The first Annual Work Plan and Budget (AWPB) shall have received IFAD's non-objection;
  - (b) The Designated Account in EUR shall have been opened by the Borrower;
  - (c) The Project Coordinator, the Financial Controller and the Project Procurement Specialist within PMCU shall have been appointed with terms of reference and qualification acceptable to the Fund;
  - (d) The PIM as described in Section II of Schedule 1, shall have been prepared in form and substance satisfactory to the Fund;
  - (e) A suitable off-the-shelf accounting software shall have been procured, installed and implemented at PMU; and
  - (f) The Project Steering Committee (PSC) shall have been established.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Cabinet Secretary  
The National Treasury and Planning  
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

This Agreement, dated \_\_\_\_\_, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

REPUBLIC OF KENYA

\_\_\_\_\_  
Ukur Yatani E.G.H  
Cabinet Secretary, National Treasury and Planning

Date: \_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

Date: \_\_\_\_\_

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. **Target Population.** The Project shall benefit: i) very vulnerable, ultra-poor, mostly women headed households, pastoralist and agro-pastoralist households; ii) commercially-orientated pastoralist and agro-pastoralist households; iii) young women and men involved in production and entrepreneurial activity at critical points in the value chain. The Project has a strong focus on the inclusion of women and youth, marginalized tribes and persons with disabilities. The Project is expected to benefit 110 000 households including both direct and indirect beneficiaries, with a total number of 495 000 people. Of the total beneficiaries, direct women beneficiaries will be 54 percent and 30 percent will be youth beneficiaries. In addition, those specifically targeted for nutrition interventions will include 30 percent of total households.
2. **Project area.** The Project will cover ten counties (out of the total 47 counties), of which: four in the western region; four in Rift Valley region; and two in the Northern Region. In line with the Country Strategy and Programme Evaluation (CSPE)'s recommendations, the Project's target areas will include two semi-arid counties (Elgeyo Marakwet and Baringo) and two arid counties (Marsabit and Samburu) in addition to the other six counties (Busia, Siaya, Kakamega, Bungoma, Trans Nozia and Nakuru) (the "Project Area").
3. **Goal.** The goal of the Project is to contribute to the Government of Kenya agriculture transformation agenda of increasing rural small-scale farmers' incomes, food and nutrition security.
4. **Objectives.** The objective of the Project is to increase incomes of 110 000 poor livestock and pastoralist households (HHs), especially youth and women, in an environmentally-friendly manner, in selected project areas of the ten participating counties. This will be achieved through: i) climate-smart production for small livestock; and ii) support to livestock market development.
5. **Components.** The Project shall consist of the following Components:
  - 5.1 **Component 1: Climate-smart production enhancement for small livestock.** The Project will use the graduation approach, which combines elements of social protection, livelihood development, savings and access to finance to protect participants in the short run, while promoting sustainable livelihoods for the future. This component will also include breed improvement, climate-resilient production systems that will include livestock fodder interventions rangeland management interventions and animal health improvement and e-extension services. Component 1 will be comprised of the following sub-components:
    - 5.1.1 *Sub-Component 1.1: Integrating vulnerable households (HHs) into value chains*
    - 5.1.2 *Sub-Component 1.2: Climate resilient production systems*
  - 5.2 **Component 2: Support to livestock market development.** The Project will improve market infrastructure and governance and will invest in rehabilitating 20 livestock markets in the selected counties. These markets are key for small-scale livestock producers and traders. The Project will also invest in building inclusive value chains by addressing some of the common marketing issues in the small ruminant, poultry and honey value chains for smallholder producers (e.g.: fragmented production, lack of storage and processing capacity, poor quality of produce and limited capacity for branding, quality assurance and limited access to finance). The Project will use the e-voucher scheme<sup>1</sup> based on IFAD's experience with using it in the cereal value chain through IFAD-financed Kenya Cereal

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<sup>1</sup> An electronic voucher platform for managing inputs and service subsidies through private sector

Enhancement Programme (KCEP-CRAL). Component 2 will be comprised of the following sub-components:

5.2.1 *Sub-Component 2.1 Market infrastructure and capacity development.*

5.2.2 *Sub-Component 2.2: Building inclusive value chains*

5.2.3 *Sub-Component 2.3 Value chain management information systems*

5.3 **Component 3: Project management and coordination.** This component will support an enabling policy framework for the livestock sector including the development of a livestock master plan. The component will cover the incremental costs of project management and coordination. Component 3 will be comprised of the following sub-components:

5.3.1 *Sub-component 3.1: Policy and institutional support to national Government*

5.3.2 *Sub-component 3.2: Project Management & Coordination Unit Support*

## II. Implementation Arrangements

6. **Lead Project Agency:** State Department for Livestock of the Ministry of Agriculture, Livestock, Fisheries and Cooperatives,

7. **Project Steering Committee:** to ensure proper coordination of the project implementation among the various players and stakeholders, an Inter-Ministerial Project Steering Committee (PSC) will be established with representation from all the concerned ministries and agencies, with the mandate to provide overall policy guidance to the Project (approve Annual Work Programs and Budgets (AWP&Bs), review project progress against targets, assess management effectiveness, decide on corrective measures where appropriate, and review lessons learned and good practices). The PSC will thus be the highest organ in the project implementation arrangements. It will meet regularly under the chairmanship of the Principal Secretary in charge of livestock development in the Ministry of Agriculture, Livestock Fisheries and Cooperatives (MALFC), to deliberate on the project progress, issues and corrective measures. The membership representation will be at the Principal Secretary level but he/she may delegate to not lower than a Director. The Project Coordinator will serve as the Secretary to the PSC.

8. **County Project Coordinating Committees (CPCCs):** at the County level, the project implementation will be overseen by the CPCCs established in every county. The CPCCs comprise of County Executive Committee Members who are essentially Ministers of the various Government Ministries that will be involved with the Project at the County level. They will provide overall guidance to project implementation within the county, review project progress against targets, review and approve AWP&Bs, assess project management effectiveness and issues affecting the Project, and decide on corrective measures. Thus majority of the CPCCs responsibilities will be similar to those of the PSC but at the County level. CPCCs meetings will be chaired by the County Executive Committee members (CEC) in charge of Livestock Development. They will meet on a quarterly basis.

9. **Project Management and Coordination Unit (PMCU):** a PMCU will be established in Nakuru to coordinate project activities. The PMCU will be comprised of the following core specialists: a Project Coordinator, a Financial Controller, a Procurement Specialist, and a Monitoring and Evaluation Specialist. The core team will be supported by technical assistants, administrative and support staff as needed. The PMCU will also include the following technical specialists: Livestock Production Lead, Marketing Development, Social Inclusion and Mobilization, as well as environmental safeguards; and social safeguards who will finalize the ESMF and the FPIC, as well as build the capacities of the PMCU and county teams in implementing proposed environmental, social, and climate safeguards actions. The recruitment of the PMCU will be the responsibility of the State Department

for Livestock (SDL), with close collaboration with IFAD. Candidates who are successful and are appointed to positions in the Project will be required to resign from their current employment if applicable. Successful candidates who will be appointed to positions in the Project and who come from the government may be seconded if eligible, in accordance with the Public Service Commission's "Guidelines on Secondment in the Public Service". In order to guarantee continuity in the PMCU, secondments will generally be for a period of three years renewable, subject to performance and business needs.

The PMCU will be responsible for the day to day management of the Project that will include: (i) planning of project activities and preparation of the AWP&B; (ii) procurement and contracting for the goods, works and services required for the project implementation; (iii) financial and administrative management of project resources; (iv) mobilization and coordination of the activities of the various project partners; (v) supervision and preparation of progress reports; (vi) setting up and maintaining an effective M&E database to reflect progress in project activities and outcomes; (vii) ensuring that environment, climate and social issues are mainstreamed and safeguards measures adhered to, and (viii) Knowledge management and documentation of lessons learned. The PMCU will be located in Nakuru to take advantage of the structures and facilities already provided under the Smallholder Dairy Commercialization Project (SDCP) closing in March 2020. This is expected to hasten the project implementation start-up.

**10. County Project Technical Teams (CPTTs) supported by Sub-County Technical Teams (SCPTTs).** On the ground, at the county and sub-county levels, the Project will be implemented by County Project Technical Teams (CPTTs) supported by Sub-County Technical Teams (SCPTTs). These teams are made up of subject matter specialists transferred to counties after devolution. They will form the technical teams that will assist the PMCU to oversee execution of the project activities on the ground. The CPTTs and SCPTTs will be headed by County Project Coordinators (CPCs) and Sub-County Project Coordinators (SCPCs) respectively, who will be appointed by the Chief Officer in charge of livestock. The CPTTs and SCPTTs staff on the other hand will be staff nominated by their Directors depending on the range of project activities that will be undertaken within the county or sub-county. The CPTTs will coordinate implementation of the project activities according to the county-level AWP&Bs that will be prepared under the supervision of the CPC and approved by the CPCC. The CPC will also be responsible for the preparation of progress reports and their submission to the PMCU. The CPTTs and SCPTTs will be the link between the Project and the local administration. They will be at the forefront of the community mobilization and any Participatory Rapid Appraisal (PRA) exercises jointly with the local leaders and service providers. The PMCU will also be supported by desk officers.

**11. Implementing partners.** Heifer International (HI) will be one of the key project implementing partner. HI will be providing a grant as well as technical support in five counties namely Bungoma, Kakamega, Marsabit, Samburu & Siaya and will be entering into a grant agreement with the Borrower for this matter Implementing arrangements will be confirmed in an agreement between IFAD, the Borrower and HI.

With regard to FAO, arrangements will be explored to determine FAO's role, responsibilities and scope of assistance in the development of the Livestock Master Plan and the Project, as FAO has a comparative advantage in the animal health and food safety area.

**12. Monitoring and Evaluation and Knowledge Management.** The Project will deploy an innovative participatory ICT-based Knowledge Management/Monitoring and Evaluation (KM/M&E) system to be developed and managed by the PMCU. A key element of the KM/M&E system will be involvement of primary stakeholders as active participants to provide ways of assessing and learning from change that are more inclusive, and reflects the perspectives and aspirations of those most directly affected by the Project. The PMCU will bear overall responsibility for the continuous M&E and regular reporting on progress and the achievement of project objectives, milestones and results.

The Project will be supervised jointly by Government of Kenya (represented by the National Treasury & Planning and State Department for Livestock) and IFAD. Annual supervision,



followed by shorter follow-up/implementation support missions six months later, will be organized every year during the project's lifetime. In addition to monitoring implementation and reporting on project performance status and results, supervision missions will be used as opportunity to assess achievements and lessons learnt, and to reflect upon ways to improve implementation and impact.

12.1 **Mid-term review (MTR).** Government of Kenya and IFAD shall jointly carry out an in-depth joint MTR of KeLCoP no later than the third year of the Project. The MTR mission will take stock of the achievements of project objectives and constraints and recommend any reorientations that might be required. Government of Kenya (the National Treasury & Planning and SDL) will ensure that the agreed actions at MTR are implemented within the agreed time frame.

12.2 **Project completion.** After KeLCoP completion date and no later than 30 days to project closure date, Government of Kenya will carry out a project completion review and submit the Project Completion Report (PCR) to IFAD. The PCR discussions will focus on bringing implementation to a closure, reflecting on progress achieved and lessons learned, taking stock of overall performance of both Government of Kenya and IFAD and reviewing sustainability and the project's exit strategy. In addition, the PCR will benefit from the project impact evaluation to be carried out by the PMCU.

13. **Project Implementation Manual.** The PDR includes as one of its annexes (Annex 8) a draft Project Implementation Manual (PIM) which provides guidelines for the implementation of the IFAD funded interventions under the Project. The PIM elaborates the procedures and processes that are to be followed in the implementation of the IFAD funded interventions and activities in KeLCoP. The PIM is an annex of the Project Design Report (PDR) and thus processes and procedures presented in this document are to be read in conjunction with the relevant sections of the main PDR.

The processes presented in the PIM will be the framework that is meant to assist the project implementation staff including those at the County level in implementing the processes for the different sub-components. It is proposed that at start-up, the recruited staff be facilitated to review the activities and processes presented herein. The review would clarify, update, refine and confirm the activities and processes that will be used during implementation. The value in undertaking such a review would be that through the process, the implementing staff would "own" the PIM and share a common understanding which would facilitate implementation. However, it is to be emphasized that the PIM is a living document and lessons from experiences will be incorporated in it on a periodic basis and submitted to the Project Steering Committee and IFAD for approval.

## Schedule 2

### Allocation Table

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

| Category                    | [Loan Amount<br>Allocated]<br>(expressed in EUR) | [Loan Amount<br>Allocated]<br>(expressed in EUR) | Percentage  |
|-----------------------------|--|--|-------------|
| Civil works                 | 4 841 000  | 4 841 000  | 100%        |
| Goods, Services & Equipment | 2 111 000  | 2 111 000  | 100%        |
| Technical Assistance        | 6 100 000  | 6 100 000  | 100%        |
| Credit Lines                | 834 000  | 834 000  | 100%        |
| Grants & Subsidies          | 3 800 000  | 3 800 000  | 100%        |
| Salaries & Allowances       | 1 438 000  | 1 438 000  | 100%        |
| Operating Costs             | 1 670 000  | 1 670 000  | 100%        |
| Unallocated                 | 2 311 000  | 2 311 000  | 100%        |
| <b>TOTAL</b>                | <b>23 105 000</b>                                | <b>23 105 000</b>                                | <b>100%</b> |

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

- (i) All expenditures are net of taxes
- (ii) Included in Goods, services and Equipment is the costs for vehicles

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs Goods, Services and Equipment, salaries and Allowances and Operating costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of EUR 400 000. Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.

### Schedule 3

#### *Special Covenants<sup>2</sup>*

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 to request withdrawals from the Loan Account if the Borrower 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 Project:

1. *Anticorruption.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations. The Borrower ensures that the systems governing the expenditure from the project funds will be subject to national and IFAD anti-corruption practices and in this regard, IFAD's anti-corruption policy shall be communicated as appropriate, including its concept of zero tolerance and the mechanisms for reporting suspected irregular practices.
2. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower shall ensure that the Project will be implemented in compliance with IFAD's SECAP guidelines and Government of Kenya's Environmental Laws, and more specifically: in line with the in depth climate risk analysis, the Environment and Social Management Framework, the Environmental and Social Management Plans, the Integrated Pesticides Management Plan and the Indigenous Peoples Planning Framework and Plan. The borrower shall enhance positive environmental and social outcomes during project implementation and mitigate negative impacts. The borrower will also ensure that the procedures and guidelines in the Indigenous Peoples Planning Framework and Plan, guide engagement with indigenous peoples through the Free, Prior and Informed Consent Process to ensure their active participation in the process of developing indigenous peoples action plans.
3. *Gender strategy.* The Borrower shall ensure that a strategy for gender has been designed to contribute to the social and economic inclusion of youth, women and other vulnerable and marginalised groups and offer them an equal opportunity to participate and benefit from the project activities.
4. *Land tenure security.* The Borrower shall ensure that the land acquisition process has already been completed and that compensation processes were consistent with international best practice and free prior and informed consent principles.
5. *Marginalized Groups and Minorities.* The Borrower shall ensure that the concerns of Marginalized Groups and Minorities are given due consideration in implementing the Project and, to this end, shall ensure that:
  - a. the Project is carried out in accordance with the applicable provisions of the relevant national legislation on the protection of Marginalized Groups and Minorities;
  - b. Marginalized Groups and Minorities are adequately and fairly represented in all local planning for project activities;
  - c. Marginalized Groups and Minorities' rights are duly respected;
  - d. Marginalized Groups and Minorities, participate in policy dialogue and local governance;
  - e. The Project will not involve encroachment on traditional territories used or occupied by Marginalized Groups and Minorities.

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<sup>2</sup> To be agreed with Negotiation team which to include and adapt wording to each specific negotiation.

6. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
7. *Internal audit.* The Ministry, through the State Department for Livestock, shall identify internal auditors to audit the PMCU and project counties once a year. Further these internal auditors shall review the internal audit processes performed by internal auditors at project counties. Internal audit reports may be requested by IFAD in a mutually acceptable manner.
8. *Audit Committee.* A Ministry Audit Committee shall be formed to review and ensure action is taken on internal and external audit findings and to review regular reports on budget execution.
9. *Final Audit.* Notwithstanding the timeline in which the Borrower prepares its year-end accounts for audit by the Office of the Auditor General of Kenya, the Borrower will ensure that the Project has a Final Audit by the Financial Closing Date of the Project. The Borrower will thus ensure that it will engage the Office of the Auditor General of Kenya to perform the Final Audit in order to comply with this term.
10. Within 6 months of entry into force of the Financing Agreement, the Project will procure and install a customize accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
11. The Borrower will enter into Memorandum of Understandings (MoU) or other necessary instruments with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.
12. *Planning, Monitoring and Evaluation.* The Borrower/Recipient shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
13. *Use of Project Vehicles and Other Equipment.* The Borrower shall ensure that:
  - (a) The types of vehicles and other equipment procured under the Project are appropriate to the needs of the implementation of the Project; and
  - (b) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to project use.