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Investing in rural people

President's report

Proposed loan

Republic of Kenya

Kenya Livestock Commercialization Project

Project ID: 2000002339

Note to Executive Board representatives

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For: **Approval**

Contents

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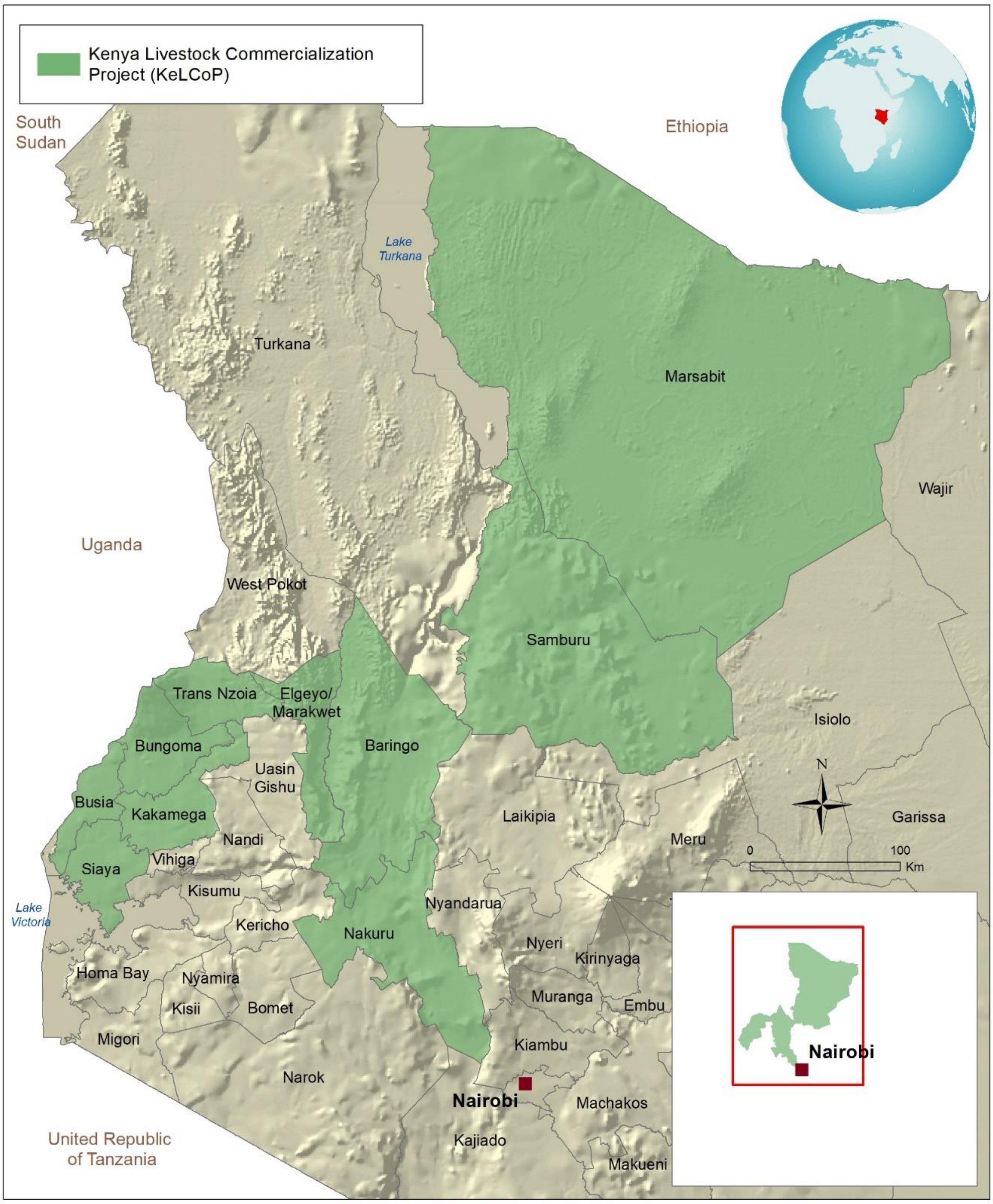
Abbreviations and acronyms

FIPS	Faster Implementation of Project Start-Up
FM	financial management
GALS	Gender Action Learning System
ICT4D	information and communication technology for development
KeLCoP	Kenya Livestock Commercialization Project
KM	knowledge management
M&E	monitoring and evaluation
PAD	Precision Agriculture for Development
PMCU	project management and coordination unit
VCs	value chains

Map of the project area



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

Map compiled by IFAD | 08-07-2020

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Government of Kenya
Executing agency:	Ministry of Agriculture, Livestock, Fisheries and Cooperatives
Total project cost:	US$93.5 million
Amount of IFAD loan:	US$27.4 million
Terms of IFAD loan:	Blend: The loan is provided under the phasing-in modality. The loan provided on blend terms will have a maturity of 25 years and a grace period of 5 years. A service charge and a fixed interest charge are payable semi-annually on the principal amount disbursed by the Fund and not yet repaid by the borrower.
Amount of IFAD loan:	US$27.4 million
Terms of IFAD loan:	Highly concessional: The loan provided on highly concessional terms under the phasing-in/phasing-out modality will have a maturity of 40 years and a grace period of 10 years. A service charge is payable semi-annually on the principal amount disbursed by the Fund and not yet repaid by the borrower. No interest is charged on the loan.
Cofinancier:	Heifer International
Amount of cofinancing	US$3.4 million
Terms of cofinancing:	In-kind contribution
Cofinanciers:	Participating financial institutions
Amount of cofinancing	US$4.6 million
Terms of cofinancing:	Loan
Contribution of borrower/recipient:	US$19.0 million
Contribution of beneficiaries:	US$11.8 million
Amount of IFAD climate finance:	US$22.9 million in total IFAD financing
Cooperating institution	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 53.

I. Context

A. National context and rationale for IFAD involvement

National context

1. Over the last decade, the Republic of Kenya has registered robust economic growth, averaging 5.5 per cent. The World Bank initially projected economic growth of 5.9 per cent in 2020. However, due to the COVID-19 shock, this projection has been revised downward to 1.0 per cent. The new Constitution of 2010 resulted in the devolution of certain powers in such areas as economic development, health care, education and infrastructure from the national government to 47 newly created counties. The next political milestone will be the 2022 general election.

2. Kenya’s population totalled 47.6 million in 2019, with 75 per cent of its inhabitants living in rural areas. In 2018, Kenya’s ranking on the Human Development Index was 0.590, the highest in the subregion. Although Kenya attained lower-middle-income status in 2014, in 2016 an estimated 36.1 per cent of the population was still living below the poverty line. Poverty is more widespread in rural areas and is more pronounced in arid counties. The poverty rate is also disproportionately high among women and youth, and the food insecurity rate remains high, with approximately 14.5 million people in the country being food-insecure.

3. Small-scale farming systems contribute 75 per cent of the country’s total agricultural output. Smallholder farmers face a number of challenges, including the shrinking size of landholdings, limited access to productivity-enhancing technologies, weak extension services, a low level of technology adoption and poor market access. In the arid and semi-arid regions of the country, most livestock is reared by pastoralists, with poor infrastructure and limited extension and veterinary services. Yet over 90 per cent of the livestock sold in local markets is raised by smallholders, making them important actors in meeting the national demand for livestock and livestock products.

Special aspects relating to IFAD's corporate mainstreaming priorities

4. In line with the mainstreaming commitments made in the course of the Consultation on the Eleventh Replenishment of IFAD’s Resources (IFAD11), the project has been validated as:

☒ Including climate finance
☒ Gender transformational
☒ Nutrition-sensitive
☒ Youth-sensitive

5. Women’s participation in production and value addition is hindered by cultural norms which limit their access to, and control over, primary resources, affordable credit, knowledge, information and agriculture inputs. Despite the guarantees provided in the Constitution, gender inequality remains a key concern in Kenya.

6. The country’s youth, who account for 35.4 per cent of the population, constitute a dynamic workforce that readily adapts to technological innovations, but the youth unemployment rate is 18.34 per cent. Agriculture, which contributes 26 per cent of GDP directly and another 27 per cent indirectly through linkages with other sectors,

has the potential to offer livelihood and employment opportunities to the country's young people.

7. The Government of Kenya does not use the term "indigenous peoples" but instead considers those segments of the population who maintain their traditional customs and belief systems to be "marginalized" sectors. The project will promote the economic and social empowerment of these groups.

Rationale for IFAD involvement

8. IFAD has a long-standing comparative advantage in participatory approaches and rural institution-building in Kenya and has effectively utilized information and communication technology for development (ICT4D) and a range of innovative tools, such as e-extension, e-finance, crowdfunding for philanthropic contributions and crowdsourcing of market information for the livestock subsector, which will be scaled up under this project.

B. Lessons learned

9. IFAD-financed projects in Kenya have often faced challenges in the areas of procurement, financial management (FM), disbursements, targeting, gender issues and beneficiary participation, and monitoring. Concerted efforts will be made to ensure implementation readiness, in part with Faster Implementation of Project Start-Up (FIPS) support. To ensure effective outreach, the Kenya Livestock Commercialization Project (KeLCoP) will use a range of ICT4D technologies, digital technologies for e-extension and digital financial technology solutions to deliver financial services and manage data efficiently.

10. To address implementation challenges regarding targeting, gender issues and beneficiary participation, the project has allocated dedicated resources and set target quotas for the inclusion of vulnerable groups, women, youth and marginalized groups.

II. Project description

A. Objectives, geographical area of intervention and target groups

11. The Kenya Livestock Commercialization Project's (KeLCoP) goal is to contribute to the Government of Kenya's agriculture transformation agenda, which calls for increases in rural smallholders' incomes and the reinforcement of their food and nutrition security.

12. KeLCoP's development objective is to raise the incomes of poor pastoralist households, especially their young and women members, in an environmentally friendly manner in selected project areas of the 10 participating counties.

13. KeLCoP is expected to directly and indirectly benefit 110,000 households (495,000 people), of which 54 per cent will be women and 30 per cent youth. A total of 30 per cent of the households will be specifically targeted for nutrition interventions.

14. KeLCoP will cover 10 of the country's 47 counties: four in the western region, four in the Rift Valley region and two in the northern region. In line with recommendations made in the country strategy and programme evaluation, KeLCoP's target areas will include two semi-arid counties (Elgeyo Marakwet and Baringo) and two arid counties (Marsabit and Samburu).

15. KeLCoP's primary target groups are the very vulnerable, ultra-poor, mostly women-headed households of pastoralists and agropastoralists; commercially oriented pastoralists and agropastoralists; and young women and men involved in production and entrepreneurial activities along the value chains (VCs). KeLCoP is strongly focused on women, youth, marginalized groups and persons with disabilities or HIV.

16. KeLCoP will adopt a range of targeting mechanisms that are sensitive to smallholder producers' needs and constraints. Direct targeting will be used to ensure effective social inclusion.

B. Components, outcomes and activities

17. KeLCoP has three components: climate-smart small livestock production enhancement; support for livestock market development; and project management.

18. **Component 1: Climate-smart small livestock production enhancement.** This component comprises two subcomponents. The first will focus on integrating vulnerable households into VCs. The approach taken here will combine a graduation mechanism and a Gender Action Learning System (GALS) with business information and communications technology (ICT) and nutrition training and e-extension models will be used that are appropriate for the needs and literacy levels of participants. The second subcomponent will focus on promoting e-extension services and climate-resilient production systems to improve livestock breeds, livestock feed production and animal health.

19. **Component 2: Support for livestock market development.** This component will include: (i) market infrastructure and capacity development; (ii) investor forums to enhance private sector engagement and investments; (iii) inclusive VC development; and (iv) provision of e-vouchers and matching grants for small-scale commercial producers, innovative start-ups launched by young people, peer-to-peer exchange and learning route methodology training; training for young traders and transporters; and a dashboard for crowdfunding for entrepreneurs. Additionally, an e-marketing application will be developed to provide real-time price information and a channel for the purchase and sale of key livestock production inputs.

20. **Component 3: Project management.** This component will support an enabling policy framework for the livestock sector and the formulation of a master plan for livestock development. The component will also cover the incremental costs of project management and coordination, including knowledge management (KM) and monitoring and evaluation (M&E).

C. Theory of change

21. KeLCoP's theory of change is premised on a multidimensional view of poverty and assessment of contributing factors that may help households improve their well-being on a sustainable basis in counties with high rates of poverty and food and nutrition insecurity. In addition to promoting high-payoff activities, steps will be taken to deal with issues of gender disparity and youth inclusion within the household and society that are associated with unequal access to opportunities, services and assets. The project will address challenges facing women and youth in the agriculture sector by incorporating tailored opportunities for them as an integral part of delivering on the Government's Agricultural Sector Transformation and Growth Strategy (ASTGS).

D. Alignment, ownership and partnerships

22. KeLCoP is aligned with the Government's development priorities as set out in key policies and strategies such as: Kenya Vision 2030, which is being implemented under three 5-year plans; the Big Four Agenda; the National Policy for the Sustainable Development of Northern Kenya and Other Arid Lands; the National Policy on Gender and Development; a draft national livestock policy focusing on transforming livestock production with modern technologies developed through continuous research and innovation; the ASTGS, which is designed to implement the agricultural components of the Big Four Agenda; the Kenya Youth Agribusiness Strategy; the Kenya Climate Smart Agriculture Strategy; the National Climate Change Action Plan; and the Environmental Management and Co-ordination Act.

23. KeLCoP is harmonized with the County Integrated Development Plan, and its implementation will be closely coordinated with relevant national and county departments. It is aligned with IFAD's Strategic Framework 2016-2025 and integrates IFAD11 mainstreaming themes. The project will partner with Heifer International (HI), which has extensive experience in dairy and poultry VCs in Kenya. HI has committed to providing technical and financial support to the project.

24. Other partnerships foreseen during implementation are with: the National Environment Management Authority (NEMA) in the area of climate and environment; the Food and Agriculture Organization of the United Nations and the United States Agency for International Development in formulating the master plan for livestock development; the resident coordinator's office in leading a consortium of United Nations and government agencies in programmes to address inter-community pastoralist conflicts in targeted counties; and the International Livestock Research Institute for technical expertise in livestock breeding, animal husbandry and pasture management.

25. Complementarity will be ensured with: the African Development Bank's Drought Resilience and Sustainable Livelihoods Programme; the World Bank's Regional Pastoral Livelihoods Resilience Project; private sector associations for public-private-producer partnership development; financial institutions; other IFAD programmes; and potentially the Green Climate Fund. The latter could help to scale up KeLCoP activities to increase smallholder pastoralists' and livestock producers' climate resilience and enhance their adaptive capacity.

E. Costs, benefits and financing

Project costs

26. Total project costs, including physical and price contingencies, are estimated at US$93.5 million over a six-year implementation period. Project costs by component are summarized in table 1.

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

Component/ subcomponent	*IFAD loan*		*Government*		*Government in-kind*		*Government cash*		*Beneficiaries in-kind*		*Beneficiaries cash*		*Participating financial institutions*		*Heifer International*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
A. Climate-smart small livestock production enhancement																		
1. Integrating vulnerable households into value chains	11 029	51.5	3 246	15.2	--	-	-	-	1 735	8.1	-	-	2 000	9.3	3 387	15.8	21 397	22.9
2. Climate-resilient production systems	18 633	55.0	5 255	15.5	4 223	12.5	-	-	5 431	16.0	344	1.0	-	-	-	-	33 886	36.2
Subtotal A	**29 662**	**53.7**	**8 501**	**15.4**	**4 223**	**7.6**	**-**	**-**	**7 167**	**13.0**	**344**	**0.6**	**2 000**	**3.6**	**3 387**	**6.1**	**55 283**	**59.1**
B. Support for livestock market development																		
1. Market infrastructure and capacity development	2 835	67.5	618	14.7	585	13.9	-	-	159	3.8	-	-	-	-	-	-	4 198	4.5
2. Inclusive value chain development	9 634	53.1	1 781	9.8	-	-	-	-	1 935	10.7	2 242	12.4	2 550	14.1	-	-	18 143	19.4
3. Value chain management information systems	661	84.0	126	16.0	-	-	-	-	-	-	-	-	-	-	-	-	787	0.8
Subtotal B	**13 130**	**56.8**	**2 525**	**10.9**	**585**	**2.5**	**-**	**-**	**2 094**	**9.1**	**2 242**	**9.7**	**2 550**	**11.0**	**-**	**-**	**23 127**	**24.7**
C. Project management	11 030	78.9	1 376	9.8	117	0.8	1 463	10.5	-	-	-	-	-	-	-	-	13 987	15.0
1. Policy and institutional support to the national government	927	84.0	176	16.0	-	-	-	-	-	-	-	-	-	-	-	-	1 103	1.2
Total project costs	**54 750**	**58.6**	**12 579**	**13.5**	**4 925**	**5.3**	**1 463**	**1.6**	**9 261**	**9.9**	**2 586**	**2.8**	**4 550**	**4.9**	**3 387**	**3.6**	**93 501**	**100.0**

Financing and cofinancing strategy and plan

27. The financing plan covers: (i) IFAD loans totalling US$54.8 million (58.6 per cent of total cost), of which US$22.9 million (42 per cent of total IFAD financing) is climate financing; (ii) the Government's contribution of US$19 million (20.3 per cent), of which taxes and duties account for US$12.6 million (13.5 per cent), cash for US$1.5 million (1.6 per cent) and in-kind contributions for US$4.9 million (5.2 per cent); (iii) a beneficiary contribution of US$11.8 million (12.7 per cent), of which in-kind contributions account for US$9.3 million (9.9 per cent) and cash for US$2.6 million (2.8 per cent); (iv) HI's contribution of US$3.4 million (3.6 per cent); and (v) participating financial institutions' contribution of US$4.6 million (4.98 per cent).

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

	IFAD loan		*Government*		*Government in-kind*		*Government cash*		*Beneficiaries in-kind*		*Beneficiaries cash*		*Participating financial institutions*		*Heifer International*		*Total*	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amoun*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs																		
A. Civil works	12 745	58.9	3 454	16.0	905	4.2	-	-	4 531	20.9	-	-	-	-	-	-	21 636	23.1
B. Equipment, goods and vehicles	5 558	58.5	1 517	16.0	533	5.6	-	-	1 035	10.9	344	3.6	-	-	514	5.4	9 501	10.2
C. Technical assistance	16 060	63.6	3 825	15,1	3 371	13.3	-	-	135	0.5	-	-	-	-	1 861	7.4	25 252	27.0
D. Grants and subsidies	10 006	58.4	2 567	15.0	-	-	-	-	3 559	20.8	-	-	-	-	1 012	5.9	17 144	18.3
E. Credit lines	2 195	23.4	380	4.1	-	-	-	-	-	-	2 242	23.9	4 550	48.6	-	-	9 368	10.0
Total investment costs	46 565	56.2	11 743	14.2	4 808	5.8	-	-	9 261	11.2	2 586	3.1	4 550	5.5	3 387	4.1	82 900	88.7
II. Recurrent costs																		
A. Salaries and allowances	3 787	72.1	-	-	-	-	1 463	27.9	-	-	-	-	-	-	-	-	5 251	5.6
B. Operating costs	4 398	82.2	836	15.6	117	2.2	-	-	-	-	-	-	-	-	-	-	5 351	5.7
Total recurrent costs	8 185	77.2	836	7.9	117	1.1	1 463	13.8	-	-	-	-	-	-	-	-	10 601	11.3
Total project costs	54 750	58.6	12 579	13.5	4 925	5.3	1 463	1.6	9 261	9.9	2 586	2.8	4 550	4.9	3 387	3.6	93 501	100.0

Table 3
Project costs by component, subcomponent and project year
(Thousands of United States dollars)

Component/subcomponent	*2021*	*2022*	*2023*	*2024*	*2025l*	*2026*	*Total*
A. Climate-smart small livestock production enhancement							
1. Integrating vulnerable households into value chains	2 408	4 984	4 506	4 942	3 839	718	21 397
2. Climate-resilient production systems	2 485	7 629	10 146	8 273	4 534	819	33 886
Subtotal: Climate-smart small livestock production enhancement	4 894	12 613	14 652	13 215	8 373	1 537	55 283
B. Support for livestock market development							
1. Market infrastructure and capacity development	140	1 105	1 866	978	54	54	4 198
2. Inclusive value chain development	-	1 828	5 691	6 083	3 627	914	18 143
3. Value chain management information systems	38	310	237	202	-	-	787
Subtotal: Support for livestock market development	178	3 243	7 795	7 263	3 681	968	23 127
C. Project management	3 525	1 714	2 436	1 821	1 857	2 634	13 987
1. Policy and institutional support to the national government	1 103	-	-	-	-	-	1 103
Total project costs	**9 700**	**17 570**	**24 882**	**22 298**	**1 3911**	**5 139**	**93 501**

Disbursement

28. There will be three types of disbursement mechanisms: advance withdrawal, direct payment and reimbursement. IFAD disbursements will be made by way of advances to the designated account and subsequent replenishments based on expenditures incurred as supported by the statement of expenditures.

Summary of benefits and economic analysis

29. Expected benefits include farmers' adoption of climate-resilient production systems and the development of sustainable livestock markets. KeLCoP's net present value is positive (US$91.3 million; 10.1 billion Kenyan shillings). Its economic internal rate of return is estimated at 29.1 per cent, which demonstrates KeLCoP's profitability.

30. KeLCoP is designed to embed sustainability in all key components by supporting the formulation of a national master plan for livestock development, building the capacity of county governments through training, and developing lasting structures for climate-resilient livestock production.

Exit strategy and sustainability

31. KeLCoP will promote the sustainability of its interventions by financing activities that will have a lasting positive impact for its beneficiaries. For example, it will support the drafting of a national master plan for livestock development, a livestock bill and county-level livestock development policies. It will use a combined graduation and GALS approach that will empower beneficiaries. All infrastructure investments under components 1 and 2 will ensure county ownership and accountability through a memorandum of understanding, and steps will be taken to build the community's capacity to manage them. Training of county environment and natural resource management officers on environment, climate and social safeguards, combined with a close working relationship with NEMA, will ensure post-project compliance with safeguards.

32. A market- and private-sector-led approach will be used to help all marketing groups to establish market linkages and to understand the requisite types of volumes, quantities and other product attributes and specifications before any production-enhancing investments are made.

III. Risks

A. Risks and mitigation measures

Table 4
Risk and mitigation measures

Risk areas	*Inherent risk rating*	*Residual risk rating*	*Mitigating measures*
Country context	Moderate	Low	The project will have a strong focus on private-sector-led growth in targeted counties and opportunities for private sector participation in selected VCs.
Sector strategies and policies	Substantial	Substantial	A master plan for livestock development will be formulated and assistance will be provided to counties in the development of strategic livestock plans.
Environment and climate context	Substantial	Moderate	Measures will be incorporated to minimize or reverse risks of overstocking, overgrazing and land/pasture degradation. Mitigation actions will include water infrastructure development, sustainable land and water management practices, rehabilitation of degraded pasturelands, promotion of sustainable rangeland and pasture management practices.
Project scope	Low	Low	KeLCoP will work with technical specialists in the public and private sectors to ensure that beneficiaries are fully sensitized to the benefits of innovative approaches.

Institutional capacity for implementation and sustainability	High	Moderate	KeLCoP will invest in technical and financial support to boost the capacity of county personnel and will contract qualified extension service providers. It will use e-extension approaches where necessary to bridge capacity gaps.
Financial management	Substantial	Moderate	To effectively safeguard project resources, internal controls have been instituted at the project management and coordination unit (PMCU). Identified controls include: proper record-keeping and posting; authorization of accounting, procurement and administrative documents; balancing and checking; physical security of assets; double signing (approval) arrangements; and financial reporting and monitoring.
Project procurement	Substantial	Moderate	Procurement oversight will be conducted through the increased implementation of support missions providing hands-on expanded implementation support to help expedite all procurement stages and ensure compliance. Procurement and technical staff will undergo focused training on procurement processes and best practices.
Environment, social and climate impact	Moderate	Low	Proposed adaptation and mitigation actions are embedded in the Environment and Social Management Plan, the project implementation manual (PIM) and the annual workplan and budget (AWP/B).
Stakeholders	Moderate	Low	Grievance redress and beneficiary feedback mechanisms will be set up so that stakeholders can lodge grievances and corrective measures can be taken by KeLCoP.
Overall	**Substantial**	**Moderate**	

B. Debt sustainability

33. Kenya's debt remains sustainable, although the risk of debt distress has moved from moderate to high owing to the impact of the COVID-19 shock. The latter has led to a sharp decline in exports and economic growth. The Government has therefore had to adopt a strong fiscal response that has driven up budget deficits. Consequently, a number of debt indicators have worsened.

34. Kenya's external and public debt vulnerabilities also reflect the large deficits caused by a decline in tax revenues as a share of GDP in recent years. Solvency indicators for the present values of external-debt-to-GDP and total public-debt-to-GDP ratios are below the indicative threshold/benchmark under the baseline scenario. However, one solvency indicator (the present value of the external-debt-to-exports ratio) and one liquidity indicator (the external-debt-service-to-exports ratio) are above the baseline scenario thresholds.

35. Kenya's debt indicators are expected to improve as exports rebound after the COVID-19 shock dissipates. This analysis highlights the need for sustained fiscal consolidation to reduce public debt to more prudent levels over the medium term. The debt sustainability analysis suggests that Kenya is susceptible to export and market financing shocks, and more protracted shocks to the economy would also present downside risks for the debt outlook.

IV. Implementation

A. Organizational framework

Project management and coordination

36. KeLCoP will be implemented through the Government's existing structures. The project's lead agency will be the State Department for Livestock, which has offices in all counties. Activities will be implemented at the county level, making the project a joint venture between the national and county governments. An inter-ministerial project steering committee will be established with representation from all the concerned ministries and agencies to provide overall policy guidance, approve AWP/Bs, review project progress against targets, assess management

effectiveness, decide on corrective measures where appropriate and review lessons learned and good practices.

37. A project management and coordination unit will be established in Nakuru with a competitively recruited team to manage and coordinate project activities. At the county level, project coordinating units will oversee project implementation. At the county and sub-county levels, county project implementation teams will be supported by sub-county teams. Details are provided in the PIM.

38. KeLCoP will establish multi-stakeholder engagement platforms in targeted counties to bring together stakeholders in the selected VCs to promote the collection of information on available opportunities and challenges and to remove bottlenecks in livestock commercialization by providing more opportunities for linking producers with input suppliers, markets, processors, traders, service providers, and other private and public actors.

Financial management, procurement and governance

39. **Financial management.** KeLCoP's FM arrangements will conform to international accounting standards, and financial statements will be in compliance with international public sector accounting standards for cash accounting. The level of financial risk will be reduced from substantial to moderate by the mitigation measures incorporated in KeLCoP's design. A stand-alone accounting system will be used. An adequate accounting system will be a disbursement condition, and start-up funds will be used to help meet that condition. Disbursements will be made to a special account to be opened at the central bank. Disbursements to counties will be made as advances from the project's operating account. At the county level, the integrated financial management information system will assign a code to the project for tracking funds and expenses. KeLCoP will facilitate timely planning to ensure that national budgeting deadlines are met; the project, as is the case with ongoing projects, will report to the national budgeting system under the heading of revenue and appropriation in aid. It will therefore adhere to government budget guidelines and thus ensure timely budgetary approvals.

40. External audits will be provided by the Office of the Auditor General, as is the case for the existing portfolio. Audits will adhere to the guidelines contained in the Handbook for Financial Reporting and Auditing of IFAD-financed Projects. Although the submission of audit reports has been timely and the quality of work has been rated as highly satisfactory, a delay was experienced in 2020 because the position of the Auditor General, who is constitutionally mandated to sign the reports, was vacant. This is not expected to become a common occurrence.

41. **Procurement.** Responsibility for project implementation and hence for the award and administration of KeLCoP contracts rests with the Ministry of Agriculture, Livestock, Fisheries and Cooperatives. Kenya's legal and regulatory public procurement framework[1] will be employed in all cases where its use is consistent with IFAD's Project Procurement Guidelines. KeLCoP's procurement risk matrix ranks overall procurement risk as "moderate". Kenya's legal and policy procurement framework is robust, but the assessment has identified numerous weaknesses, which KeLCoP will address with mitigation measures to ensure the quality and timely implementation of procurement procedures.

42. **Governance.** The project will invest in boosting the capacity of county personnel. KeLCoP will also contract qualified technical assistance providers and use e-extension approaches where necessary to bridge capacity gaps in extension service provision.

[1] Public Procurement and Asset Disposal Act No. 33 of 2015 (revised edition 2016).

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

43. KeLCoP will deploy innovative, participatory ICT-based KM and M&E systems that are to be developed by Precision Agriculture for Development (PAD), an ICT4D organization. PAD is already working with the State Department for Crop Development and has rolled out an e-extension tool in select counties. PAD will also work closely with the PMCU to establish a transformational link between M&E and KM and to develop knowledge products based on streamlined and digitized processes. A key element of the KM and M&E system will be the involvement of primary stakeholders as active providers of more inclusive ways of assessing and learning from change. The PMCU will have overall responsibility for continuous M&E and regular reporting on progress towards project objectives.

44. **Beneficiary feedback, grievance redress and e-citizen portal.** KeLCoP will conduct regular beneficiary feedback surveys in order to assess how participants view the various activities and obtain their recommendations for ways of achieving greater relevance, efficiency and impact. The project will promote South-South and Triangular Cooperation.

Innovations and scaling up

45. The project design includes innovative elements involving the use of a host of digital technologies and applications that deploy ICT4D approaches and scalable models in partnership with the private sector. Innovations and information technology will be integrated into the development of an e-extension approach and an e-finance arrangement to reduce access and delivery costs. E-marketing systems for information access and for purchase and sale applications will be developed. The project will scale up the provision of digital financial services such as the e-voucher scheme currently used under another IFAD-financed project in Kenya. Under the scheme, users are issued customized debit (ATM) cards containing e-wallets that they can use to purchase farm products or inputs from selected agro-dealers.

C. Implementation plans

Implementation readiness and start-up plans

46. Important lessons learned from investment projects financed by IFAD and other development partners relate to implementation start-up delays that are often triggered by delays in recruitment and in setting up PMCUs, the procurement and installation of appropriate financial management software and the fulfilment of other disbursement conditions. KeLCoP will therefore utilize the FIPS to implement key start-up activities in the first six months of the project. A start-up advance of US$500,000 is proposed for the following purposes: recruitment of PMCU staff and establishment of PMCU offices; procurement of FM software; initial baseline survey activities; salaries for key PMCU staff; start-up operating costs, including PMCU staff mobility expenses; and establishment of M&E systems and related training.

Supervision, midterm review and completion plans

47. **Supervision.** IFAD and the Government (represented by the National Treasury and its Planning_Office and the State Department for Livestock) will jointly supervise the project on an annual basis in conjunction with shorter follow-up and implementation support missions. Besides monitoring implementation and reporting on project performance status and results, supervision missions will assess achievements and lessons learned and look into ways to improve implementation and impact.

48. **Midterm review.** IFAD and the Government will jointly undertake a midterm review of KeLCoP no later than the third reorientation year of project implementation. The review will take stock of achievements in terms of project objectives and constraints and, on this basis, recommend any that may be

required. The relevant government agencies will ensure that the actions agreed upon at the time of the midterm review are implemented within the agreed time frame.

49. **Project completion.** After the KeLCoP completion date, and no later than 30 days before the project closure date, a completion review will be undertaken by the Government and a project completion report (PCR) will be submitted to IFAD. PCR discussions will focus on bringing implementation to a close, reflecting on progress achieved and lessons learned, taking stock of the overall performance of both the Government and IFAD, and reviewing sustainability considerations and the project's exit strategy. The PCR will also benefit from the project impact evaluation to be carried out by the PMCU.

V. Legal instruments and authority

50. A project financing agreement between the Republic of Kenya and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.

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

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

VI. Recommendation

53. I recommend that the Executive Board approve the proposed financing of two loans amounting to fifty-four million eight hundred thousand United States dollars (US$54,800,000) in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on blend terms to the Republic of Kenya in an amount of twenty-seven million four hundred thousand United States dollars (US$27,400,000) 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 second loan on highly concessional terms to the Republic of Kenya in an amount of twenty-seven million four hundred thousand United States dollars (US$27,400,000) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement

(To be tabled at the session)

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline[2]	Mid-Term	End-Target	Source	Frequency	Responsibility	
Outreach	Estimated corresponding total number of households members				PMCU MIS quarterly reports	Annually	PMCU	Project initiates its activities on expected timelines and all approvals and implementation arrangements are in place.
			148,500	495,000				
	Total # of Persons receiving services from Project[3]							
			33,000	110,000				
Project Goal: Contribute to the Government's agriculture transformation Agenda of increasing rural small-scale farmers' incomes, food and nutrition security.	(%) increase in income of the targeted households				3rd party household surveys, poverty/gender studies	Baseline, Midline and End Line	PMCU	Households' incomes increase due to increased production/ productivity and better market access. / Continued political and economic stability
	Percentage (%)	KES 400/day[4]	25	35				
Development Objective: Increase incomes of 110,000 poor livestock and pastoralist HH, especially youth and women, in an environmentally friendly manner, in selected project areas of 10 participating counties.	Percentage of beneficiary households reporting increase in income				Baseline asset survey, mid & end line Survey	Baseline, mid-term and completion		Poor rural people are willing to adopt innovative technologies. Private sector engaged in the project implementation through SMEs/ Both local and regional markets remain stable
	Percentage (%)	0	20	60				
COMPONENT 1: CLIMATE SMART PRODUCTION ENHANCEMENT FOR SMALL LIVESTOCK								
Outcome 1: Enhanced poor rural people's production capacities	No of households reporting adoption of new/improved inputs, technologies or practices.	500	23,000	77,000	Project baseline/ mid-term /completion Surveys	Baseline, mid-term and completion	PMCU	Financial sources will be available to the households to enhance adoption
	Percentage of households reporting increase in production (%)	10	20	60	project baseline/ mid-term /completion Surveys	Baseline, mid-term and completion	PMCU	Poor rural people are willing to adopt innovative technologies Households willing to increase consumption of other sources of foods /Community customs facilitate women empowerment
	Percentage of targeted women reporting increase in empowerment using WEAI index (%)		50	80	Surveys by the project baseline/ mid-term /completion			
	Percentage Women reporting minimum dietary diversity (MDDW) (%)		30	50				
Output 1.1: Develop Livestock Masterplan, regulations and strategies for livestock at county level	Number of existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendments	10	2	4	PMCU Records	Annual	PMCU	Provisions are made for review, formulation and ratification of relevant policies/ Political environment is supportive of policy reviews, formulation and amendments
	Number of policy-relevant knowledge products completed	1	2	4				
Output 1.2: Improve access to agricultural technologies and production services.	Number of rural producers[5] accessing production inputs and/or technological packages	1,000	15,000	50,000	PMCU Records	Annual	PMCU	Poor rural people are willing to adopt innovative technologies Availability of improved breeds

[2] Baseline data figures have been derived from the County Integrated Development Plans (CIDPs) The figures will be revised once a comprehensive baseline survey will be conducted
Based on FAO Family Farming Data. AGTS. 2019.
[3] Approx. 54.5% of beneficiaries will be women (18,000 at midline; 60,000 end term) and at least 30% youth (9,900 at midterm and 495,000).
[5] The total number of producers will be disaggregated by females, males, youth and non- youth.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline[2]	Mid-Term	End-Target	Source	Frequency	Responsibility	
Output 1.3: Improve access to inclusive financial services	Number of persons accessing financial services (credit &savings)[6] (disaggregated by age/sex)	500	3,000	7,255				Financial service providers are available to support project engagement with FIs Farmers and other value chain actors are willing to take up financial services from banks
	Volume of credit advanced to project beneficiaries by financial institutions		US$2.4 M	US$9.4 M				
Output 1.4: Improve nutrition of vulnerable households	Number of households provided with targeted support to improve nutrition (No.)		11,550	38,500				
Outcome 2: Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.	Percentage of households reporting adoption of environmentally sustainable and climate resilient technologies and practices (%)	5	25	60	Outcome surveys	Baseline, mid-term and completion	PMCU	Communities are willing to adopt environmentally sustainable and climate resilient technologies and practices such as rangeland governance
Output 2.1: Improved rangeland management and access to water infrastructures	Number of households accessing water infrastructure		10,000	20,000	PMCU Records	Annual	PMCU	
	Number of groups supported to sustainably manage natural resources and climate-related risks (No.)	15	50	200				
	Number of hectares of rangeland under improved governance (Ha)		1,000	3,000				
COMPONENT 2: SUPPORT TO LIVESTOCK MARKET DEVELOPMENT								
Outcome 3: Enhanced poor rural people's benefit from market participation	Number of new jobs created (will be disaggregated by age/sex) (No.)		1,000	3,000	Outcome surveys At County level and Integrated Development Plans (IDPs)	Baseline, mid-term and completion	PMCU	County Govts are willing to partner with project to improve market infrastructure/County Govts'' tax regimes are facilitative and incentivize local traders to use market infrastructure
	Percentage of supported rural enterprises reporting increase in profit.(%)		10	60				
	Number of HH reporting improved physical access to markets.	333	5,000	11,666				
	Number of HH reporting improved physical access to processing	333	5,000	11,666				
	Number of HH reporting improved physical access to storage facilities.	333	5,000	11.666				
Output 3.1: Improved livestock market infrastructure	Number of market, processing or storage facilities constructed or rehabilitated (No.)	10	50	150	PMCU Records County Integrated Development Plans	Annual	PMCU	County Govts are willing to partner with project to improve market infrastructure / Recipients of matching grants invest in processing & storage facilities …
Output 3.2: Improved access to e-marketing services	No. of farmer groups registered in the database and participating in the MSPs (No.)	500	1,500	3,000				Value chains actors are willing to work together through platforms and to create market linkages
	Number of private sector actors participating in MSPs (disaggregated per value chain and role in the supply chain)	100	250	500				
	Number of market linkages created.	10	18	60				
Output 3.3: Diversified rural enterprises and employment opportunities	Number of persons trained in Income generating activities or business management (disaggregated by age/sex) (No.)	500	5,000	11,000				Value chain Actor demand for training exist
	Number of rural enterprises accessing business development services (No.)	1,000	2,000	8,000				Entrepreneurs are willing to able to access business development services

[6] The total number of persons accessing financial services (credit) will be disaggregated by men, women, and youth.

Integrated project risk matrix

Risk Categories and Subcategories	Inherent	Residual
Country Context	Moderate	Low
Political Commitment	Moderate	Low
Risk(s): In the recent past, the Government has reiterated its commitment to macroeconomic policies, aimed at maintaining public debt at a sustainable level, containing inflation within the target range, and preserving external stability. The Debt-to-GDP ratio stood at 61.6% in 2019 and the Government has confirmed that debt sustainability analysis indicates that public sector debt continues to be sustainable although the country's current external debt risk of distress categorisation has moved from low to moderate. As a result, the Government has adopted a more robust and cautious approach in negotiations regarding external debt, often resulting in delays in signing of financing agreements. Currently, Additional Financing agreements for UTaNRMP and ABDP remain unsigned, almost 18 months since approval by the Executive Board (EB) and there is risk in the delayed signing of KeLCoP's financing agreement as well.	Moderate	
Mitigation(s): To mitigate this risk, the IFAD/Kenya country team will continue to support government's efforts to mobilize co-financing in the form of grants from other development partners. So far, funding has been secured from Heifer International and discussions are ongoing with the German Government. In addition partnership with the IFC is being explored o provide parallel financing targeting the private sector actors in the value chain. These efforts are geared towards reducing overall cost of finance of the project to the Government.		
Governance	Moderate	Low
Risk(s): Firstly, County Governments have limited resources and are in the process of downsizing. They do not have the financial and personnel capacity to undertake their mandates with respect to major areas including the livestock sector.	Moderate	Low
Mitigation(s): In order to mitigate the risk, the project will assist the county Government with developing its overall capacity for strategic planning, providing it support in implementation and helping to invest in key resources, enable it to modernise its system of extension and market information through deploying digital technologies and e-extension models and assisting it in facilitating links with private sector and encourage private sector investments		
Risk(s): Secondly, the ongoing COVID-19 pandemic as well as upcoming general (2021) and presidential elections (2022) may pose delays in project start-up as well as implementation due to shortages of supplies and necessary services. According to the updated IMF forecasts of April 2020, due to the outbreak of the COVID-19, GDP growth is expected to slow down to 1% in 2020 and pick up to 6.1% in 2021, subject to the post-pandemic global economic recovery. This may result in increased prices and cost.	Moderate	Low
Mitigation(s): To mitigate this risk, the FIPS facility will be used to improve capability of State Department of Livestock to faster project start-up. Preparatory activities such set of PMU, acquisition of accounting software and M&E system will be financed through the FIPS facility. FIPS will also be used to support the State Department of Livestock to develop a COVID-19 mitigation strategy for the project, which will analyse the actual and potential impacts of the pandemic at the different levels of project implementation and on the target groups, and offer suggestions on the measures to be undertaken. One area that could receive attention re-orienting project Investments to be rolled out in a manner that pay more focus resilient livestock systems and building back livelihoods better to speedier recovery following shocks such as COVID-19 and political turmoil like post-election violence. Moreover, IFAD will monitor and support implementation to agree with implementing agency on reasonableness of the procurement approaches and obtained outcomes considering the available market response and needs. Finally, the project activities are aligned to the activities in the County Integrated Development Plan (CIDP) for which some resources have already been budgeted and there is potential to attract financing from other development partners. Moreover, the support requested from the county government under the project will generally be for aspects, which are within their capacity to provide such as land grants, tax incentives and ease of doing business for private sector. Finally, the project will use the technical capacity of the county governments in Livestock Production and Veterinary Officers for technical training of smallholder farmers, women and young men.		
Macroeconomic	Moderate	Low
Risk(s): The medium-term growth outlook expected to be impacted by COVID-19 pandemic as growth is projected to drop to 1.0% in 2020. In addition recent threats of drought and continued subdued private sector investment could drag down growth in the near-term.	Moderate	Low
Mitigation(s): In order to mitigate the risk, the project has a strong focus on private sector led growth in the selected counties and has identified a host of opportunities for encouraging the participation of the private sector in the selected value chains through hosting investor forums and multi-stakeholder forums.		

Risk Categories and Subcategories	Inherent	Residual
Risk(s): Secondly, there may be poor response from potential private sector actors in the selected value chains.	Moderate	Low
Mitigation(s): In order to mitigate the second risk, the project, in collaboration with the County Government, will build in attractive incentives for private sector engagement such as land grants, and strengthen the ease of doing business as well as linking the private sector with smallholders, which can provide tradable volumes and reliable supplies of appropriate quality. Discussions with county Governments show that they are willing to offer a range of incentives for this purpose.		
Fragility and security	Moderate	Moderate
Risk(s): Security threats (ethnic clashes, social conflicts and terrorist attacks could be an inherent risk).	Moderate	Moderate
Mitigation(s): In order to mitigate the risk, KeLCoP will not be implemented in counties known to be impacted by terrorism. In one or two arid counties there might be threats of low-level tribal feuds. Concerted effort will be made to select Wards that are secure for project implementation.		
Sector Strategies and Policies	Substantial	Substantial
Policy alignment	Moderate	Moderate
Risk(s): There is no overarching strategic policy or planning at the national or the county government level for livestock breed, feed and animal disease surveillance and control.	Moderate	Moderate
Mitigation(s): In order to mitigate the risk, the project will assist the National Government with the development of a Master Plan for Livestock together with FAO and ILRI and assist the county Governments with strategic plans for the livestock sector.		
Policy development & implementation	High	High
Risk(s): The livestock policies and strategies that are in place do not adequately acknowledge the role, needs, priorities and interests of smallholder farmers, women, youth and marginalized communities in agriculture	High	High
Mitigation(s) In order to mitigate the risk, the project will facilitate the National Governments and the County Governments to develop inclusive livestock strategies. The strategic interests of smallholder pastoralist and agro-pastoralist farmers, rural women, youth and marginalized traditional tribes will be addressed by promoting their visibility through recognizing the critical role that they play in the livestock value chains and addressing their needs and priorities.		
Environment and Climate Context	Substantial	Moderate
Project vulnerability to environmental conditions	Moderate	Low
Risk(s): The main negative environmental risks that are likely to impact from the project include overstocking, overgrazing, land/pasture degradation, deforestation, soil erosion, pollution from effluent discharge, wildfires, and resource use conflicts among others.	Moderate	Low
Mitigation(s): In order to mitigate this risk, the project has put in place elaborate measures within the components, the SECAP and the ESMF to minimise or reverse these risks. Some proposed mitigation actions include water infrastructure development, sustainable land and water management practices, rehabilitation of degraded pasture lands, promotion of sustainable rangeland and pasture management practices, development of a grievance redress mechanism, and promotion of integrated pests management among others. It is expected that if the project implements the proposed mitigation actions, builds capacities of farmers, and works closely with relevant authorities, the risk levels in the project areas will reduce significantly or be reversed. The project has put in place elaborate measures within the components, the SECAP and the ESMF to minimise or reverse these risks. Some proposed mitigation actions include water infrastructure development, sustainable land and water management practices, rehabilitation of degraded pasture lands, promotion of sustainable rangeland and pasture management practices, development of a grievance redress mechanism, and promotion of integrated pests management among others. It is expected that if the project implements the proposed mitigation actions, builds capacities of farmers, and works closely with relevant authorities, the risk levels in the project areas will reduce significantly or be reversed.		
Project vulnerability to climate change impacts	High	Moderate
Risk(s): The risk that existing or possible future climate variability and/or extreme climatic events may have significant adverse impacts on food and nutrition security, agricultural productivity, access to markets, value chains, infrastructure, and/or the incidence of pests and diseases, resulting in increased vulnerability or deterioration of target populations' livelihoods and ecosystems. Some of the project	High	Moderate

Risk Categories and Subcategories	Inherent	Residual
counties are exposed to extreme weather events, such as drought, heat waves and floods. Drought and heat waves will negatively affect livestock productivity and livelihoods of agro-pastoralists in ASAL counties. The wetter western counties are more likely to experience floods and landslides, which could lead to disease outbreaks and loss of livestock or human lives. Other risks associated with climate variability or change include emergence of desert locusts, water scarcity, wild fires, resource use conflicts, land degradation among others.		
Mitigation(s): In order to mitigate the risks, the project has proposed mitigation actions within its components, the SECAP, ESMF and the in-depth climate risk analysis will minimize these risks. Some measures include investments in water infrastructure, a contingency fund to address climate related emergencies, sustainable pasture and rangeland management practices, agroforestry, breed improvement, disease and pests' surveillance, climate and weather information services, climate proofing market and processing facilities, and aligning selected value chains in sub-counties with climate projections, among others. Implementation of the proposed mitigation actions is likely to improve farmers' abilities to cope with and deal with climate change.		
Project Scope	Low	Low
Project relevance	Low	Low
Risk(s): Firstly, there may be a risk that the objectives and interventions of the project are not well aligned with national development or IFAD priorities, and/or are not sufficiently relevant or responsive to the needs and priorities of the intended target group throughout the project's lifespan.	Low	Low
Mitigation(s): In order to mitigate this risk, the project scope and activities were closely identified in discussion with beneficiaries and County Governments and with relevance to their development plans.		
Risk(s): Secondly, there is a lack of opportunities for the rural poor especially youth, women and smallholders reduce the scope of the project to enable them to increase their productive capacity, access to markets and increase their resilience to economic and climate risks.	Low	Low
Mitigation(s): In order to mitigate the impact of this risk, a rigorous assessment of the opportunities offered by the selected value chains will be conducted at County level and priorities of the selected beneficiary households will be identified in participatory manner with relevant stakeholders and the County Government. Thus, the scope will be tailored and focused in each County.		
Technical soundness	Low	Low
Risk(s): While the project is technically robust, one of the risks that can be foreseen is that the innovative aspects of the project are not adapted rapidly by the beneficiaries	Low	Low
Mitigation(s): In order to mitigate this risk, during implementation, the project will work with technical specialists in the public and private sector in order to ensure that the beneficiaries are fully sensitized on the benefits of the innovative approaches.		
Institutional Capacity for Implementation and Sustainability	High	Moderate
Implementation arrangements	High	Moderate
Risk(s): Firstly, there may be weak technical capacity of county government personnel in policy development and livestock extension.	High	Moderate
Mitigation(s): In order to mitigate this risk, the project will invest adequately in technical and financial support to boost capacity of county personnel and also contract qualified extension service providers and use of e-extension approaches where necessary to bridge capacity gaps. Supervision and implementation support missions, especially in years 1 and 2 will support project implementation.		
Risk(s): Secondly, a number of innovative technological tools will be deployed in the project, hence calling for various thematic and specialized expertise, which the PMCU may not have recourse to	High	Moderate
Mitigation(s): In order to mitigate this risk, implementing arrangements will involve contracting an outcome-based, locally well-established NGO, with expertise in ASALs, business, ICT, and livestock development. A number of such NGOs have already expressed interest and they include Heifer international; Precision Agriculture for Development (PAD); USTADI Foundation, SNV; or ICCO, Resource Conflict Institute (RECONCILE), amongst others.		
M&E arrangements	High	Moderate
Risk(s): Weak M&E arrangements will not allow for the project's progress and impact to be accurately measured.	High	Moderate
Mitigation(s): In order to mitigate this risk, KeLCoP will deploy a participatory 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		

Risk Categories and Subcategories	Inherent	Residual
to provide inclusive assessments of results, and to reflect 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. As indicated in the Kenya COSOP (2020-2025), the Kenya portfolio is currently in the process of developing a portfolio KM Plan. Therefore, the KM Plan developed through KeLCoP will be aligned with this overarching portfolio KM Plan. Moreover, a web-based Management Information System (MIS) will be developed to facilitate data management and allow automated production of a number of draft progress tables.		
Procurement	Substantial	Moderate
Legal and regulatory framework	Substantial	Moderate
Risk(s): Regulations under the Public Procurement and Disposal Act of 2015 contain some weaknesses in the area of transparency and accountability. The use of IFAD's Standard Bidding Documents will largely limit the risks identified though the review and reflected in the PRM.	Substantial	Moderate
Mitigation(s): The PIM will contain clear indication of rules, regulations, policies and procedures to be adopted in order to ensure compliance with IFAD's Project Procurement Guidelines		
Accountability and transparency	High	Moderate
Risk(s): Kenya ranks 137 out of 180 countries in the 2019 Corruption Perception Index according to Transparency International which indicates that integrity and ethical values still require strengthening. Risks related to Accountability and Transparency include: slow procurement processing and decision making with potential implementation delays; unclear defined roles in contract management system with potential time and cost overrun and poor-quality deliverable; increased risk of F&C (abuse of simplified procurement procedures, false delivery certification, inflated invoices).	High	Moderate
Mitigation(s): In order to mitigate this risk, all procuring entities as well as bidders and service providers, that is: suppliers, contractors, and consultants shall observe the highest standard of ethics during the procurement and execution of contracts financed under the IFAD funded Projects in accordance with paragraph 84 of the Procurement Guidelines and the relevant Articles of the Kenya Public Procurement Act and other national legislation which refers to corrupt practices. The Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations shall apply to the project, Compliance with IFAD Policy on Preventing Fraud and Corruption including without limiting the IFAD's right to sanction and the IFAD's inspection and audit rights. Maintaining accountability for following the expedited approval processes; assigning staff with responsibility of managing each contract; and ensuring oversight by IFAD teams in close coordination with the borrower's oversight agencies.		
Capability in public procurement	Substantial	Moderate
Risk(s): State Department for Livestock (SDL) staff have limited experience in using Donors Procurement Regulations and Procedures and have a heavy workload.	Substantial	Moderate
Mitigation(s): In order to mitigate this risk, KeLCoP will recruit two qualified and experienced procurement staff to carry out procurement activities and provide focused training and hand-holding for capacity building of the PMCU staff and other implementing partners. Individual consultant may be recruited on retainer basis to support the implementation of the planned activities whenever needed.		
Public procurement processes	Moderate	Low
Risk(s): The risks include: delay in initiating completing the planned activities; inadequate Technical Specifications and evaluation criteria; incomplete records keeping and filing; excessive use of non-competitive procurement methods, without proper justification; weakness in ensuring contract management (supervision)/administration (monitoring) during contract implementation to completion that may result into cost overruns	Moderate	Low
Mitigation(s): In order to mitigate this risk, IFAD's oversight of procurement will be done through increased implementation support missions, and will provide procurement hands-on expanded implementation support to help expedite all stages of procurement and ensure compliance. Procurement and technical staff of the PMU to undergo focused training on procurement process best practices.		
Financial Management	Substantial	Moderate
Organization and staffing	Moderate	Low
Risk(s): The risk that the implementing entity does not have the necessary number of adequately qualified and experienced financial management staff in the national and regional centers, resulting in limited ability to meet the functional needs of the project.	Moderate	Low

Risk Categories and Subcategories	Inherent	Residual
Mitigation(s): In order to mitigate this risk, the PS of MoALF will be the Accounting Officer for the project in regards to government organizational structure. The project will be house under the Ministry however there will be an independent PMCU with a Finance Unit. The Financial Controller assisted by the Accounts Assistants shall manage the Finance Unit of the Project. These team shall be competitively recruited as part of the start up activities.		
Budgeting	Moderate	Moderate
Risk(s): The risk that budgeted expenditures are not realistic, not prepared or revised on a timely basis, and not executed in an orderly and predictable manner, resulting in funds not being available when needed, ineligible costs and reallocation of project funds and slow implementation progress.	Moderate	Moderate
Mitigation(s): the Financial Controller of the PMCU will coordinate the budget preparation processes with close coordination with project coordinator and the lead person for each component. At the counties levels, the activities to be carried out at the counties will also need to be included in their budget for approval by the counties assemblies. This will be done by county project coordinator under the guidance of the project's Financial Controller. Payments cannot be made if the budget provisions have not been made and approved by Parliament at the Ministry's level and County Assembly for county activities. Moreover, the arbitrary cut of printed estimates budgets in the course of a fiscal year due to other fiscal measures will be emphasized during loan negotiations and specific assurances be sought that project budget estimates will not be arbitrarily cut by the National Treasury		
Funds flow/disbursement arrangements	High	Moderate
Risk(s): The risk that funds from multiple financiers disburse with delay due to cumbersome treasury arrangements or inability of project cost centers and service providers to justify prior advances, resulting in delayed implementation.	High	Moderate
Mitigation(s): A clear and streamlined process of flow of funds has been put in place: (a) transfer of the Government's counterpart funds to a separate bank account that will be managed by PMCU; (b) payments for expenditure from counterpart funds bank account; (c) transfer of IFAD funds to KeLCoP US$ designated account; (d) transfer of IFAD funds to PMCU operational account in local currency for payments at PMCU. This account will be held in a commercial bank; (e) transfer of IFAD funds to County Project Accounts; (f) payments of eligible expenditure at county levels; (g) payments of eligible expenditure at PMCU; (h) direct payment to suppliers or partners by IFAD. This will be on exceptional basis and for payments of more than USD 100,000 as will be guided in the letter to borrower.		
Internal controls	Substantial	Moderate
Risk(s): The risk that appropriate controls over Project funds are not in place, leading to the inefficient or inappropriate use of project resources.	Substantial	Moderate
Mitigation(s): To effectively safeguard project resources, internal controls have been instituted at the PMCU in the whole framework of financial and administrative procedures. The identified controls range from; proper record keeping and posting, authorization of accounting, procurement and administrative documents, balancing and checking, physical security of assets, double signing (approval) arrangements, to financial reporting and monitoring. These are prescribed in PFM act and further detailed in the finance and operation manual for the project. There will be internal audit function, as noted below, to check overall compliance to internal controls and provide support towards improving systems, procedures and processes.		
Accounting and financial reporting	High	Substantial
Risk(s): The risk that accounting systems – including polices and standards – are not integrated and reliable, leading to inaccuracies in financial records, and that reasonable records are not prepared, issued and stored, leading to lack of informed decision-making.	High	Substantial
Mitigation(s): IFAD will provide intensive training and support to county financial managers. The project will invest in accounting software to boost PMCU's capacity and will simultaneously do regular checks and balances. A properly installed accounting software will be a disbursement condition to disbursement. The acquisition of the software including staff training will be part of the start up activities.		
External audit	Substantial	Moderate
Risk(s): The risk that independent and competent oversight of the Project financial statements is not in place or performed timely leading to possible misrepresentation of the financial results and/or suspension or other remedies due to compliance breaches.	Substantial	Moderate
Mitigation(s): On annual basis, Finance controllers will prepare and the audit TOR in the beginning of the financial year and agree timelines with the OAG. The consolidated draft financial statements for the		

Risk Categories and Subcategories	Inherent	Residual
project will submitted to the Office of the Auditor General not later four month after the financial year end. The audited financial statements submitted to IFAD within six months after the period end in accordance with IFAD guidelines.		
Environment, Social and Climate Impact	Moderate	Low
Biodiversity conservation	Low	Low
Risk(s): The risk that the project may cause significant threats to or the loss of biodiversity, availability of diversified nutritious food, ecosystems and ecosystem services, territories of the indigenous peoples, or the unsustainable use/production of living natural resources.	Low	Low
Mitigation(s): The project will not have adverse impacts on biodiversity in the area. On the contrary, the project will invest in the rehabilitation of degraded rangelands and pasturelands, support hay and silage making for use during the dry season, promote agroforestry, improve livestock breeds and management, and promote efficient feeding practices. As some project sites maybe close to protected areas such as game reserves, the project will ensure that a 5km buffer zone is adhered to and these areas screened out of the project sites. Deforestation will be controlled through agroforestry and afforestation efforts. Communities will be consulted and sensitised on the need to conserve biodiversity and engaged in all such efforts.		
Resource efficiency and pollution prevention	Moderate	Low
Risk(s): The risk that the project may cause pollution to air, water, and land, and inefficient use of finite resources that may threaten people, ecosystem services and the environment at the local, regional, and global levels.	Moderate	Low
Mitigation(s): To mitigate this risk, the project plans to invest in various measures that will promote resource efficiency. These include breed improvement, development of community based water infrastructure, animal health, upgrading and climate proofing marketing and processing facilities, and, implementation of proposed environment, climate and social risks mitigation actions. Measures to prevent pollution of water, soil and air through effluent discharge, e-waste, solid waste, among others have been articulated in the ESMF and in the SECAP and the project is expected to implement them to minimise pollution levels.		
Cultural heritage	Moderate	Low
Risk(s): Firstly, patriarchal norms may prevent women from participating and benefitting from project activities. In order to mitigate the risk, the project proposes the extensive use of GALS methodology to empower women and make women's roles, needs and aspirations visible; and sensitizing smallholder farmers, women, men and youth to the need of gender justice to increase well-being. Moreover, KeLCoP will increase women's self-efficacy, access to knowledge, skills, ICT, capital through training, grants, exposure visits and GALS fairs. Finally, KeLCoP activities will increase women's visibility as actors in the value chain in the Master Plan for Livestock and County Livestock strategies and Behaviour Change Communication Campaign. The SECAP and the ESMF also identify potential social risks and proposes mitigation actions that the project should implement to address them. Secondly, there may be a risk of men taking over if women's economic activities increase in value and/or become more profitable. The same situation may lead to adults taking over youth assets and economic activities.	Moderate	Low
Mitigation(s): In order to mitigate this risk, group ownership of assets will be promoted, particularly to support women, in ensuring that no male member of any one household may be able to appropriate the woman's assets. GALS training will also be used to empower women to take up leadership positions. Simultaneously, mentors will be in close contact with beneficiaries to monitor use of asset and economic activity. The project has developed a grievance redress mechanism (GRM) to address conflicts and grievances that may arise from project interventions. Moreover, indigenous peoples will be engaged in a consultative and participatory manner through the FPIC process, whilst ensuring that they provide consent to all interventions included in their action plans.		
Indigenous Peoples	Moderate	Low
Risk(s): Inequitable participation and delivery mechanisms insufficiently sensitive to the specific requirements and culture of IPs are possible risk.	Moderate	Low
Mitigation(s): In order to mitigate this risk, quotas for the inclusion of IPs have been set at 10% across project components. The project has developed and Indigenous Peoples Planning Framework that articulates the processes and procedures through which the FPIC will be undertaken and the Indigenous Peoples Action Plans developed. The FPIC will ensure that IPs are engaged through a participatory, consultative and transparent process and that they provide consent for all interventions that are proposed		

Risk Categories and Subcategories	Inherent	Residual
in their action plans. Moreover, the project will take the do-no-harm approach in ensuring that interventions proposed are not harmful to their cultural norms and indigenous way of life. The project has also developed a GRM, which the IPs will be made aware of, and through which they can lodge complaints so that corrective measures can be made.		
Community health and safety	Moderate	Low
Risk(s): Community health and safety risks are likely to result from exposure to agrochemicals, zoonotic diseases, COVID 19, and pollution resulting from some project interventions.	Moderate	Low
Mitigation(s): To mitigate this risk, the SECAP, ESMF and the integrated pesticides management plan have identified these risks and proposed mitigations actions that will be implemented to minimise or reverse these risks. For COVID 19, some of the measures include awareness creation and sensitisation on social distancing, wearing of masks, washing/sanitising hands, and use of M-Pesa/digital money transactions.		
Labour and working conditions	Low	Low
Risk(s): The risk that the project may cause exploitative labour practices (e.g. forced or child labour), gender based violence, discriminatory and unsafe/unhealthy working conditions for people employed to work specifically in relation to the project, including third parties and primary suppliers.	Low	Low
Mitigation(s): In order to mitigate this risk, the project will include in its ESMP safeguards to ensure that each technical lead and service provider ensures that there are no exploitative labour practices (e.g. forced or child labour), gender based violence, discriminatory and unsafe/unhealthy working conditions for people employed to work specifically in relation to the project. The beneficiary feedback surveys will also include feedback on these aspects and a GRM mechanism will also be in place to ensure this risk is minimized.		
Physical and economic resettlement		No risk envisaged
Project interventions will not lead to physical or economic resettlement of project beneficiaries or communities in the project areas. The ESMF provides an exclusion list of interventions that will not be supported by the project and indicates that resettlement of more than 20 persons will not be supported by the project.		
Greenhouse gas emissions	Low	Low
Risk(s): The risk that the project may significantly increase greenhouse gas (GHG) emissions and thereby contribute to anthropogenic climate change.	Low	Low
Mitigation(s): KeLCoP is investing in small ruminants (goats and sheep), poultry and bee value chains, which are expected to have very minimal contributions to GHGs emissions. Interventions to promote sustainable rangeland and pasture management, efficient feeding practices, breed improvement etc., are likely to further reduce GHG emissions into the atmosphere. Moreover, the project will benefit from a pilot being done by IFAD in collaboration with FAO on GHGs emissions reduction in the livestock sector, through the use of Global Livestock Environmental Assessment Model (GLEAM. The latter will provide a baseline and an end-line progress assessment in reduction of GHGs emissions		
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Low
Risk(s): The marginalization of women and youth beneficiaries. Women are more vulnerable to climate change and environmental degradation because of their triple role in society, and also because they face discrimination and inequalities in accessing land and water, markets, technologies and credit.	Moderate	Low
Mitigation(s): In order to mitigate this risk, the project will establish a strong quota and target with explicit budget lines for women youth and vulnerable groups in selected value chains for each training, grant and investment opportunity. The needs of the IPs will also be addressed through the FPIC process and the development of IPs action plans. Furthermore, the SECAP, in-depth climate risks analysis and the ESMF identify potential environmental, social and climate risks and proposed mitigation actions that will be implemented to address them		
Stakeholders	Moderate	Low
Stakeholder engagement/coordination	Moderate	Low
Risk(s): Firstly, County Governments or indigenous peoples may not feel involved in project activities when they are being implemented.	Moderate	Low
Mitigation(s): In order to mitigate this risk, all investments plans and project activities will be discussed and agreed upon with County Governments during the AWP/B exercise to secure their commitment. IPs will be engaged through the FPIC and the development of IPs actions plans.		

Risk Categories and Subcategories	**Inherent**	**Residual**
Risk(s): Secondly, smallholder farmers, particularly women, youth and poor households may feel that the project activities are not relevant for them, in spite of the wide consultations during the project design.	Moderate	Low
Mitigation(s): In order to mitigate this risk, the project will adopt a participatory and demand driven approach to assess community needs and develop support packages in close partnership with them.		
Stakeholder grievances	Moderate	Low
Risk(s): beneficiaries, target groups and stakeholders can lodge grievances and have corrective measures taken by the project.	Moderate	Low
Mitigation(s): The project has developed and will put in place a grievance redress mechanism and a beneficiary feedback mechanism through which beneficiaries, target groups and stakeholders can lodge grievances and have corrective measures taken by the project.		