
President's report on a proposed grant under the private sector to Equity Bank Kenya Limited for the Africa Rural Climate Adaptation Finance Mechanism

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 27.

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I. Background

1. The Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM) is a regional initiative covering Kenya, Rwanda, Uganda and United Republic of Tanzania. The aim of ARCAFIM is to promote climate adaptation among smallholder farmers and micro, small and medium-sized enterprises (MSMEs) through improved access to and use of green finance. The initiative has a duration of 12 years and consists of a loan facility (line of credit) to Equity Bank Kenya Limited (EBK), combined with complementary technical assistance (TA) to: (i) EBK and its sister banks in Rwanda, United Republic of Tanzania and Uganda; (ii) other participating financial institutions (PFIs), namely microfinance institutions, and savings and credit cooperative organizations that receive wholesale funding from EBK or the sister banks; and (iii) borrowing MSMEs, cooperatives and smallholders. The ARCAFIM loan facility was approved through a non-sovereign operation investment proposal (EB 2023/VBC/2 + Add.1) by the IFAD Executive Board through vote by correspondence on 22 November 2023.
2. Overseen by an IFAD coordination unit under the Private Sector Operations Division, ARCAFIM is financed with US\$90 million to be provided through IFAD as returnable contributions and with US\$20 million to be provided as a TA grant. This funding comprises: (i) US\$45 million returnable contribution and US\$10 million grant from the Green Climate Fund (GCF); (ii) US\$30 million returnable contribution from the Ministry of Foreign Affairs of the Government of Finland (MFA); (iii) US\$15 million returnable contribution from the Nordic Development Fund (NDF); (iv) US\$5 million grant from the Government of Denmark; and (v) a grant of US\$5 million from the IFAD-managed and European Union-financed Investing in Livelihood Resilience and Soil Health in African, Caribbean and Pacific Countries (ILSA) programme.¹
3. The US\$90 million loan funds from the GCF, MFA and NDF channelled through IFAD will be matched by US\$90 million of EBK's own resources and will be partially onlent to its sister banks in Rwanda, Uganda and United Republic of Tanzania to be channelled as a line of credit for wholesale lending to PFIs and direct lending to MSMEs and smallholder producers to be used as green financing. Of the US\$20 million in grant funding, US\$14.5 million will be channelled to EBK for the TA activities pursuant to the TA grant agreement, while US\$5.5 million will be managed and used by IFAD for coordination and implementation of part of the TA activities. This President's report requests the Executive Board's approval of the US\$14.5 million technical assistance grant to EBK for technical assistance and coordination support. As per the Delegation of Authority Framework, all grants to private sector entities must be approved in-session by the Executive Board.
4. The TA grant is expected to be disbursed pursuant to a single TA grant agreement but through three separate financing instruments to allow for smooth tracking of fund use and further reporting to the donors. Entry into the TA grant agreement is a condition precedent for IFAD's access to the returnable contributions from the donors.

¹ As at 23 July 2025, the financing agreements for the GCF, MFA of the Government of Finland, NDF and the Government of Denmark are all under advanced negotiation, with expected final signatures by mid-October 2025, at the latest.

5. EBK will be the direct grant recipient. EBK will also be the borrower under the ARCAFIM loan facility (line of credit) and as such is the natural recipient of the TA grant.

II. The proposed programme

6. The overall goal of the ARCAFIM TA grant is to ensure the improved capacity of participating financial institutions and agriculture value chain participants to adapt to risks imposed by climatic changes.
7. To support this overall goal, the development objectives of the TA activities conducted under this grant are: (i) strengthening of the awareness and capacity of EBK, the sister banks and its wholesale lending partners to offer rural climate change adaptation (CCA) finance services; and (ii) development of the CCA investment capacity and financial literacy skills of small-scale producers, rural MSMEs, farmers' organizations and cooperatives.
8. Two components are foreseen under the grant, as follows:
9. **Component 1: Strengthening of the awareness and capacity of EBK, the sister banks and its wholesale lending partners to offer rural CCA finance services**
10. Support will be provided to EBK, its sister banks and approximately 20 PFIs to ensure that the credit provided will deliver transformational adaptation impact. The funds will be used to build the capacity of EBK and the sister banks to deliver the ARCAFIM loan funding effectively, and to strengthen their long-term capacity to independently mobilize and implement CCA finance.
11. Potential technical support areas will include: (i) development and implementation of the CCA finance strategy and the related staff development programme; (ii) development or strengthening of CCA lending products targeting smallholders and MSMEs active in food systems; (iii) support to rural outreach and social inclusion strategies, including CCA finance advisory capacity; (iv) training on ways to strengthen utilization of digital finance services by integrating functions for climate, rural and agricultural finance to enable data-driven, affordable and effective risk management and support functions for CCA lending; (v) capacity-building on improved management information systems; (vi) training on developing agriculture and climate insurance products and solutions such as bundled service packages; and (vii) support to implement and strengthen the environmental, social and governance standards and management systems. Furthermore, ARCAFIM will work with the PFIs to develop TA packages delivered to small-scale producers and MSMEs under component 2.
12. The grant will also finance the contracting of a university to offer a certified expert in climate adaptation finance course for relevant staff members at EBK and sister banks.
13. Technical support to PFIs will also be provided to identify and pilot digital technologies to reduce transaction costs, and/or improve the credit assessment and risk management of small CCA loans. The solutions to be implemented include but are not limited to: (i) use of geographic information system (GIS)-based information on farmers' production and digital transaction histories to inform client risk assessments; (ii) data analytics tools; (iii) mobile money systems to reduce transaction costs and enhance tracking of savings, credit and payment services; and (iv) integration of technical advisory packages and weather information into mobile banking.

14. **Component 2: Development of the CCA investment capacity and financial literacy skills of small-scale producers, rural MSMEs, farmers' organizations and cooperatives**
15. Recognizing the urgent need to stimulate demand for CCA finance among rural small-scale producers and MSMEs involved in food systems, the ARCAFIM TA grant will be used to offer targeted and practical technical assistance to these groups. The pipeline generated through the capacity-building directly builds the investment outreach of EBK, its sister banks and the local PFIs, ensuring effective and appropriate utilization of the ARCAFIM financial resources. In the four target countries, the capacity-building activities aim to reach an estimated 325,000 small-scale producers and 625 agribusinesses.
16. Smallholder communities will be trained to increase their knowledge of viable CCA options and related financial services, and to enhance their financial literacy skills and savings culture. Furthermore, a targeted training module for women's empowerment in the use of CCA financial services will be developed.
17. For the MSMEs and farmer cooperatives, the goal of the TA will be to strengthen knowledge of viable CCA options and benefits, and the related financial services. The TA also aims to develop the business planning, investment start-up and financial management capacity of these enterprises and cooperatives, thereby increasing the demand for CCA finance and lowering the investment risk for financial institutions. Furthermore, EBK, its sister banks and PFIs will be supported in conducting bankability assessments for agribusinesses in order to be informed on real investment risks and opportunities. This support will target well-planned productive CCA investments in different food subsectors, to ensure the highest possible positive impact on climate change resilience.
18. The costs of key coordination staff and supervision are directly budgeted under this component.

III. Expected outcomes/outputs

19. The key outcome-level result of the TA grant activities is that EBK, its sister banks and partner PFIs expand and mainstream CCA finance in the region, resulting in increased climate change resilience and improved food security.
20. The key result is the improved CCA investment capacity of the smallholders and MSMEs that – when supported by relevant financial services from EBK, its sister banks and PFIs – will increase the climate change resilience of rural households and improve the long-term profitability and sustainability of their farms and microenterprises.
21. Through revolving loans during the implementation period, ARCAFIM is expected to provide 260,000 loans worth US\$266 million across the four countries, benefiting directly and indirectly over 1.5 million people (of whom 50 per cent are women and 30 per cent youth), helping 208,000 households and MSMEs to adopt improved and/or new climate-resilient livelihood options (see logical framework in appendix I).

IV. Implementation arrangements

22. **Overall implementation and management structure.** All funds will be channelled through IFAD's Private Sector Financing Programme. The TA grant recipient will be EBK, where the programme management unit (PMU) will be based. IFAD will enter into the TA grant agreement with EBK only when the full US\$20 million required for the programme has been committed to IFAD by the donors. Funds for the rest of the TA activities, including for the sister banks, PFIs, MSMEs, farmers' organizations and farmers, will be transferred to the Equity Group Foundation (EGF), which will manage the TA activities and associated reporting. As part of their management of their portion of the TA grant funds, EGF will transfer

funds to its sister banks in the ARCAFIM countries to implement specific TA activities in their countries.

23. Programme activities at EBK, EGF and the sister banks will be implemented either by utilizing their own internal service resources or by recruiting external TA service providers.
24. To ensure the effective use of the TA grant to support the ARCAFIM lending operations, EBK will – in close cooperation with and based on required training estimates/budgets by EGF and the sister banks – produce a detailed annual TA workplan and budget for each programme year (see further details on financial governance in appendix II).
25. **PMU support to TA grant management and coordination.** The PMU will be established in EBK. The PMU's management and oversight responsibilities include both the CCA loan financing operations and the ARCAFIM TA grant functions. The PMU will lead and oversee the planning, coordination and monitoring functions of the ARCAFIM TA grant activities. For the first five years, the staffing of the PMU will be cofinanced 50 per cent by the EBK's own funds and 50 per cent by the ARCAFIM TA grant, after which EBK will assume the full cost for the remaining years of the programme.

V. Indicative programme costs and financing

26. The TA grant will consist of US\$14.5 million in grant funds from the three supplementary fund sources, combined with approximately US\$2.21 million in-kind cofinancing from EBK in the form of staff salaries. As outlined in table 1, 40.7 per cent of total costs are used to cover component 1, and 56.2 per cent are for component 2, with 3.1 per cent covering the additional programme management costs for annual audits. As outlined in table 2, the main proportion of costs will be dedicated to salaries and allowances (47 per cent) and training (35.2 per cent). A total of 3.6 per cent will be dedicated to operating costs.²

² Specific amounts by component, category and financier are subject to final donor approval.

Table 1

Costs by component and financier

(Thousands of United States dollars)

<i>Components</i>	<i>Grant funds</i>			<i>In-kind cofinancing</i>	<i>Totals</i>		
	<i>GCF</i>	<i>Government of Denmark</i>	<i>ILSA</i>	<i>EBK</i>	<i>Grant</i>	<i>In kind</i>	<i>All</i>
1. Strengthening of the awareness and capacity of EBK, the sister banks and its wholesale lending partners to offer rural CCA finance services	2 190	1 257	1 542	1 818	4 990	1 818	6 808
2. Development of the CCA investment capacity and financial literacy skills of small-scale producers, rural MSMEs, farmers' organizations and cooperatives	4 299	2 047	2 654	390	9 000	390	9 390
Programme management	298	106	106	-	510	-	510
Total	6 787	3 410	4 302	2 208	14 500	2 208	16 708

Table 2

Costs by expenditure category and financier

(Thousands of United States dollars)

<i>Components</i>	<i>Grant funds</i>			<i>In-kind cofinancing</i>	<i>Totals</i>		
	<i>GCF</i>	<i>Government of Denmark</i>	<i>ILSA</i>	<i>EBK</i>	<i>Grant</i>	<i>In kind</i>	<i>All</i>
Consultancy	464	503	237	-	1 204	-	1 204
Equipment and materials	38	15	110	-	163	-	163
Goods, services and inputs	30	-	-	-	30	-	30
Salaries and allowances	3 271	1 247	1 116	2 208	5 633	2 208	7 841
Training	2 285	1 314	2 277	-	5 875	-	5 875
Travel and allowances	274	169	257	-	700	-	700
Workshops	89	38	172	-	299	-	299
Operating costs	335	125	134	-	594	-	594
Total	6 787	3 411	4 302	2 208	14 500	2 208	16 708

VI. Recommendation

27. The Executive Board is invited to approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, the Africa Rural Climate Adaptation Finance Mechanism Technical Assistance, shall provide a supplementary-funded grant of fourteen million five hundred thousand United States dollars (US\$14,500,000), split into the three separate amounts referred to in table 1, to Equity Bank Kenya Limited upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Alvaro Lario
President

Results-based logical framework

Project/programme results (outcomes/ outputs)	Project/programme specific Indicator	Means of Verification (MoV)	Baseline	Mid-term	Final	Assumptions/Notes
Outcome Improved capacity of PFIs and agriculture value chain participants to adapt to risks imposed by climatic changes	1.1 Number of trained PFIs offer appropriate CCA rural financial services <ul style="list-style-type: none"> - By type of financial institution - By Country 	Host Bank annual report	0	14	24	<i>Assumption: all trained PFIs offer appropriate CCA rural financial services</i> <i>Disaggregated by type of PFI: (Host Bank, bank, SACCO, MFI, Fintech) and by country.</i> <i>Assumptions: Climate resilient agricultural solutions remain viable and of interest to PFIs and producers, no major financial, political, economic, environmental, or health crisis, sustained trust in financial institutions, sustained viability of financial service providers.</i>
	1.2 Number of individuals with increased skills/capacity in CCA investment and financial literacy <ul style="list-style-type: none"> - By Gender - By Age (Youth) - By Country 	Household surveys at project years 3, 6, 9 and 12	0	146,250 small producers 280 MSMEs - Female: target 50% - Youth: target 30%	292,500 small producers 560 MSMEs - Female: target 50% - Youth: target 30%	<i>Assumption: 90% of trained report increased skills and capacity.</i>
Output 1 Improved readiness and capacities of all PFIs to make appropriate climate finance investments	1.1.1 Number of trained PFIs implement CCA lending products and technology solutions	Host Bank annual report	0	4 Sister Banks 10 other PFI partners	4 Sister banks 20 other PFI partners	<i>Assumption: all trained PFIs will implement appropriate CCA lending products</i>
	1.1.2 Number of trained PFIs have a functioning CCA finance appraisal toolkit and are capable to design and operate a portfolio reporting system against the CCA Taxonomy	Host Bank annual report	0	4 Sister Banks 10 other PFI partners	4 Sister 20 other PFI partners	<i>Assumption: all trained PFIs will implement a CCA Taxonomy reporting framework</i>

Output 2 Improved CCA investment capacities of smallholder farmers and MSMEs	2.2.1 Number of potential borrower small producers that receive technical support for CCA investment and financial literacy, including <ul style="list-style-type: none"> - By Gender - By Age (Youth vs. non-Youth) - By Country 	TA annual report	0	162,500 small producers - Female: target 50% - Youth: target 30%	325,000 small producers - Female: target 50% - Youth: target 30%	<i>Estimated 80% of trained access lending</i>
	2.2.2 Number of potential borrower SME managers that receive CCA investment and business planning technical support	TA annual report	0	313	625	<i>Estimated 80% of trained access lending</i>

Financial governance

Given the selection of a private sector entity as the recipient, the strictest management and governance frameworks will be set in place. These will ensure that resources are being used most efficiently to achieve the objectives of the project. Furthermore, given some integrity due diligence alerts identified, enhanced mitigations measures are recommended.

This appendix covers details on: (a) financial management overview; (b) financial management systems; (c) audit arrangements; (d) integrity due diligence.

28. *Financial management overview*

IFAD, through the Private Sector Financing Programme, will channel the grant funding to EBK who will directly manage the funds and host the PMU.

While channelled under one TA Grant Agreement, the budget and subsequent expenditure reporting is separated by funding source in order to ensure alignment with the timelines and requirements of each source. Specifically, here is a need to frontload funds from GoD and the ILSA programme in order to align with the timeframes in the respective supplementary funds' agreements. In addition, funds from GoD are reserved specifically for activities in Uganda.

It is expected that a separate Financing Instrument will be used for each of the three funding sources to enable smooth tracking of fund use. There will be segregated accounts by funding source, or other arrangement agreed between IFAD and EBK. The TA funds will be transferred over the programme period directly from IFAD to EBK following similar disbursement processes to the ARCAFIM investment funds. As outlined in the implementation arrangements above, EBK will use some funds to cover the PMU costs and some other activities specific to EBK capacity building, and the remaining will be transferred to the EGF for the TA activities for PFIs, MSMEs, FOs and smallholders. As needed, funds will be issued from the EGF to the Sister Banks for country-specific TA activities, with support from EGF staff as needed. Service providers will also be contracted as needed.

In terms of disbursement arrangements, from the effective date the EBK may request withdrawals from the TA Grant through the submission to IFAD of a Withdrawal Application and other required documentation in the form and substance acceptable to IFAD. Amounts disbursed in advance shall not exceed 90% of the expenditures included in the relevant Work Plan and Budget that has received IFAD no-objection. For the second and following Withdrawal Applications, EBK shall also submit to IFAD a Statement of Expenditure demonstrating the use of at least 75% of the immediately preceding instalment (and 100% of previous instalments, if any). The final payment shall be made after receipt by IFAD of a satisfactory final completion report under the TA Grant Agreement. No Withdrawal Application will be accepted by IFAD after the grant closing date pursuant under the TA Grant Agreement unless IFAD has agreed in writing to an extension.

Each and every one of the above instalments shall be channelled to EBK only if and to the extent that the relevant funds for the TA Grant have been duly received by IFAD from the donors. IFAD may request additional information and supporting documentation, as required.

29. *Financial management systems*

Overseen by the PMU, the financial management of the grant funds will be embedded within the robust financial management systems of the wider ARCAFIM initiative, including the systems and reporting arrangements. The PMU will lead the preparation of Annual Workplans and Budgets, expense reports, and other reporting as required, in collaboration with the EGF. With regard to reporting, the EGF will collate data and reporting from subsidiaries and service providers and submit to the PMU who will collate with reporting on the investment funds and submit to IFAD.

EBK has robust data management systems and dedicated staff experienced in reporting requirements of key international development financiers. Dedicated resources will be used to recruit an ARCAFIM Monitoring & Evaluation (M&E) Specialist for EBK and Sister Banks at the banking group level. She/he would provide focused support to the design of a core financial reporting system for ARCAFIM with key indicators for the programme funds utilization and portfolio status, to be operated as a part of the main Host Bank performance reporting system. The M&E Specialist based in the PMU would also support the development of the additional, specific M&E reports on ARCAFIM operations that (i) respond to the eligibility criteria and reporting requirements of the programme and (ii) can be operated as much as possible as a part of the standard IT-based accounting system of EBK. The ARCAFIM portfolio reports (unaudited) will be submitted to IFAD on a quarterly basis, and the audited report be submitted annually.

EBK shall submit interim certified Statements of Expenditure (SOEs) (or a similar report based on a template to be agreed with EBK) with the supporting transaction list, signed by an authorized Signatory on a semi-annual basis. The transaction list shall provide a breakdown of direct costs by component and category of expenditure and by individual transaction concluded and shall consolidate transactions incurred by the Sister Banks. A final certified SOE for the totality of eligible expenditures incurred by the Project shall be submitted by the grant closing date, segregating the winding-up expenditures incurred between the project completion date and the grant closing date.

SOEs shall disclose the sources and uses of funds spent to finance the Grant activities, specifying whether the expenditures were funded in cash or by contributions in kind. SOEs shall consolidate the expenditures incurred by the Recipient and by sub-recipients. Income generated from advance withdrawals of the Grant (if any) will be disclosed in the SOEs and audit reports submitted to IFAD. SOEs submitted to IFAD shall be in the currency of the Grant Agreement. IFAD shall not accept SOEs submitted in any other currency.

30. *Audit arrangements*

Internal Audit. In EBK, the audit committee is appointed by the EBK Board of Directors and is responsible for providing independent oversight on 1) The integrity of the financial statements of the bank; 2) The effectiveness of the EBK's financial reporting, internal control and risk management system; 3) The effectiveness of the bank internal audit function; and 4) The external auditors' qualifications, independence and performance. The audit committee is currently composed of four independent and non-executive directors, one of whom is a certified public accountant. The Board of Directors has also set up an effective internal audit department, staffed with qualified personnel to perform internal audit functions. The ARCAFIM operation is expected to be part of the internal audit scope, once the ARCAFIM's operation starts.

External Audit. EBK is expected to appoint an external auditor to perform the annual external audit for both the loan and the TA. The details of the audit scope will be agreed between IFAD and EBK and will be included in the TA Grant Agreement.

31. *Integrity Due Diligence*

In response to media reports in March 2024 about alleged fraud and money laundering involving Equity Bank Group employees, an enhanced Integrity Due Diligence review was carried out to confirm the strength of EBK Group's Anti-Financial Crime framework.

The review found that Equity Bank Group took appropriate action by disciplining the involved staff and reinforcing its internal anti-financial crime controls.

Additional mitigation measures will be introduced, including regular confirmations from EBK on the effectiveness of its internal controls related to anti-financial crime.

The implementation of these measures will be closely monitored through annual supervision missions and ongoing integrity due diligence reviews.