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Enabling poor rural people  
to overcome poverty

## **Republic of Kenya**

### **President's memorandum**

#### **Central Kenya Dry Area Smallholder and Community Services Development Project**

#### **Amendment to the loan agreement and reallocation of loan proceeds**

Executive Board — Ninety-third Session  
Rome, 24-25 April 2008

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed amendment to the loan agreement and reallocation of loan proceeds for the Central Kenya Dry Area Smallholder and Community Services Development Project in the Republic of Kenya as contained in paragraph 9.



## President's memorandum

### Central Kenya Dry Area Smallholder and Community Services Development Project (Loan No. 547-KE)

#### Amendment to the Loan Agreement and Reallocation of Loan Proceeds

##### A. Introduction and background

1. Your approval is sought to make amendments to the loan agreement for the Central Kenya Dry Area Smallholder and Community Services Development Project in Kenya to reallocate to other loan categories funds originally allocated to the poverty alleviation initiatives (PAI) component. The amendments must be approved by the Executive Board because they significantly change the scope and characteristics of the project as originally approved.
2. The IFAD loan was approved by the Executive Board on 7 December 2000 and the loan agreement was signed on 27 February 2001. The loan became effective on 1 July 2001. At appraisal, the total project cost was estimated at US\$18.08 million, comprising a loan of about US\$10.91 million from IFAD, a grant of US\$4.10 million from the Belgian Survival Fund (BSF), US\$2.66 million from the Government of Kenya and US\$0.41 million from the beneficiaries.
3. Approval for equivalent amendments to the financing agreement related to the BSF grant is being sought concurrently from BSF authorities in Belgium.
4. The proposed amendments to the loan and financing agreements are based on the conclusions of the mid-term review, and they also take into account the disruption of livelihoods in the project area resulting from the recent political crisis in Kenya. Moreover, the Government has submitted a formal request for amendment to IFAD.

##### B. Justification for the amendment request

5. As at 31 December 2007, cumulative project expenditure was about US\$9.4 million, representing 52 per cent of the overall project cost. This low rate of disbursement is primarily due to the non-use of the funds allocated under the PAI component (US\$6 million equivalent). In fact, due to changed circumstances not foreseen at design, the modalities for use of these funds were never developed. A condition for using PAI funds was that the Government would establish a parallel poverty fund to support the PAI component. The poverty fund was never created and in its stead the Government established four funds: the Constituency Development Fund; the Local Authority Transfer Fund; the Women's Fund; and the Youth Fund. These funds have made PAI funds redundant.
6. Although, as indicated above, no PAI funds were disbursed under the IFAD loan, the Government and the project managed to access other funds to meet the project's objectives. In this regard, one of the project's success stories, and a welcome response to the non-availability of the PAI funds, has been the ability of communities and the Government to mobilize their own resources to meet expenditures originally intended to be funded through the PAI component; they, in fact, mobilized greater financial resources than the US\$6 million originally foreseen.
7. PAI funds as per project design are therefore no longer needed. At the same time, other successful components under the project have exhausted or even overdrawn their allocations. It is therefore necessary to reallocate the PAI

funds to these components and their related expenditure categories, enabling them to consolidate their successes. This has been acknowledged in the project's mid-term review completed in 2007 and in the various supervision mission reports and aides-memoires relating to the project, which have also pointed out that if the non-disbursement of PAI funds is excluded, the project's disbursement level is already 78 per cent. All three project objectives remain valid – it is only the source of funding that is different.

8. The need to apply these funds has been made urgent by the recent political crisis, which has resulted in the massive displacement of people from Rift Valley Province into Central Province. This unplanned influx of large numbers of people into the project area has strained land and water resources. The crisis has also increased input costs, disrupted social services, overstretched social infrastructure, and interrupted marketing chains for inputs and produce driving up food prices in the area. It is imperative that urgent mitigation and adaptive measures be adopted to ensure better land husbandry, conservation of land and water resources, and sustained livelihoods in the area; and to provide opportunities for people living around Mount Kenya (an international site for monitoring global warming) to respond to the challenges posed by climate change.

### **C. Recommendations**

9. For the reasons indicated above, the request of the Government of Kenya to amend the loan agreement is considered justified, and it is recommended that the Executive Board approve the reallocation of PAI funds to the project's other successful components, and that it also allow these funds to be applied to address urgent needs resulting from the recent political crisis in Kenya. Priority needs are related to mitigation and adaptive measures for land and water resource management, social infrastructure and sustainable livelihoods in the project area.

