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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed supplementary loan to the Republic of Kenya for the**

### **Southern Nyanza Community Development Project**

Executive Board — Ninety-fifth Session  
Rome, 15-17 December 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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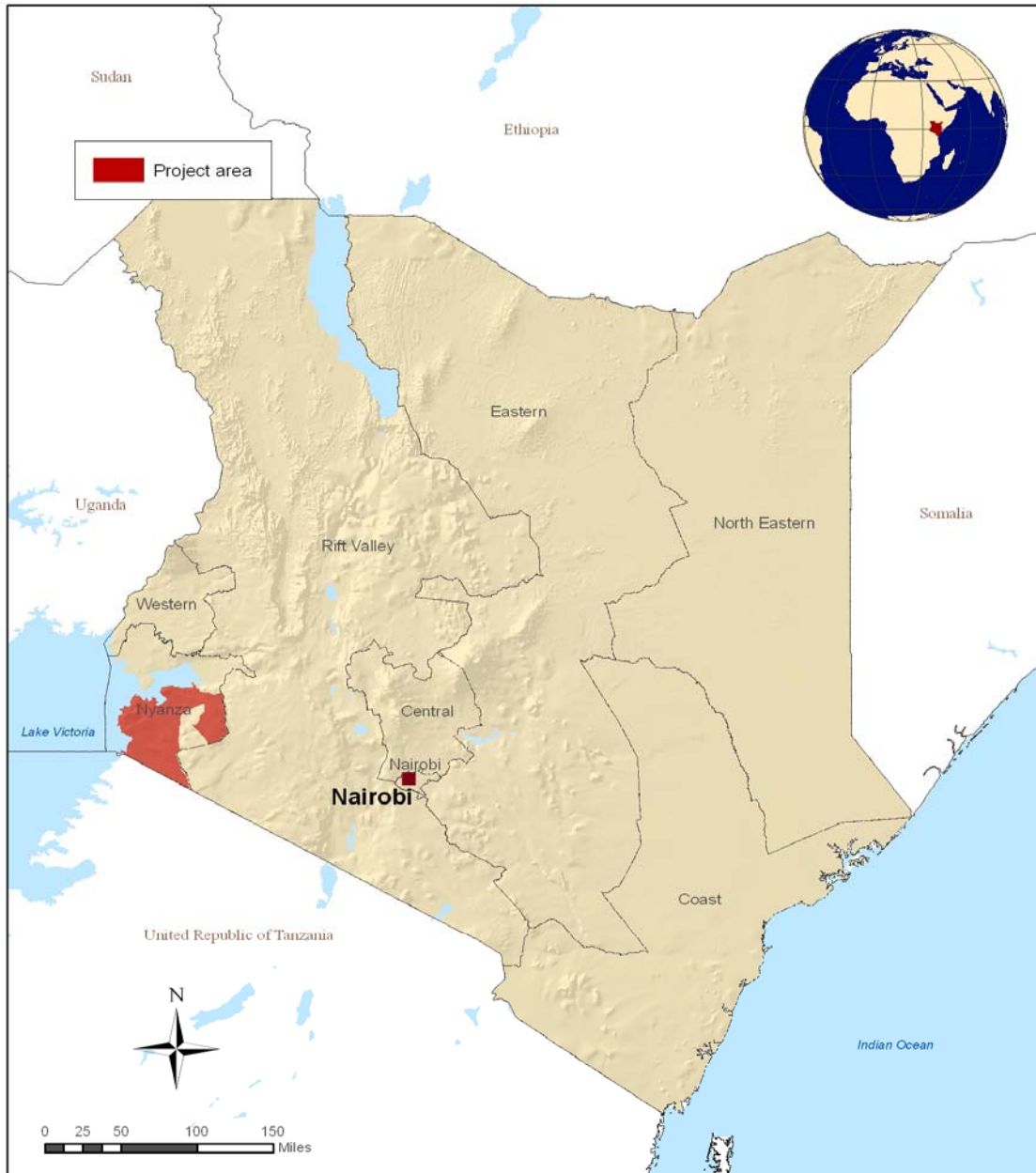
## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed supplementary loan to the Republic of Kenya for the Southern Nyanza Community Development Project, as contained in paragraph 35.

## Map of the project area

### Kenya

Southern Nyanza Community Development Project, Supplementary Funding



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

## Republic of Kenya

### Supplementary loan for the Southern Nyanza Community Development Project

#### Loan summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Kenya
<b>Executing agency:</b>	Ministry of State for Planning, National Development and Vision 2030
<b>Total project cost:</b>	US\$23.8 million
<b>Amount of IFAD supplementary loan:</b>	SDR 4.0 million (equivalent to approximately US\$5.9 million) in additional resources resulting from an increased performance-based allocation system allocation
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>IFAD's original contribution:</b>	US\$15.6 million
<b>Contribution of borrower:</b>	US\$1.8 million
<b>Contribution of beneficiaries:</b>	US\$0.5 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

# Proposed supplementary loan to the Republic of Kenya for the Southern Nyanza Community Development Project

## I. The project

### A. Main development opportunity addressed by the project

1. The project will build local governance capacity at the community level and strengthen linkages with government technical services to improve the economic/institutional framework for development activities geared towards supporting sustainable livelihoods. The overall objectives of the project are to reduce poverty and improve livelihoods for the communities in the project area.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a supplementary loan to the Republic of Kenya in the amount of SDR 4.0 million (equivalent to approximately US\$5.9 million) on highly concessional terms to help finance the Southern Nyanza Community Development Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum. This loan will finance the project jointly with the remaining proceeds of the loan approved in December 2003 (EB 2003/80/R.27/Rev.1).

#### Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Kenya under the PBAS is US\$29.88 million over the 2007-2009 allocation cycle. This loan seeks to make use of the additional resources available under the current PBAS cycle, resulting from improved rural sector scores for Kenya.

#### Relationship to national medium-term expenditure framework criteria

4. The activities to be financed under the proposed supplementary funding are fully aligned with Kenya's expenditure mechanisms.

#### Flow of funds

5. IFAD will establish a project loan account in the name of the borrower. Funds will be used to finance IFAD's share of the project's eligible expenditures. The existing project management unit will manage the loan account.

#### Supervision arrangements

6. The loan will be administered and directly supervised by IFAD.

#### Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

#### Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) goods and services and short-term national and international technical assistance to be financed from the IFAD loan will be procured in accordance with government procedures and in compliance with IFAD procurement guidelines; (ii) project accounts will be audited each year in accordance with appropriate auditing principles and practices consistently applied by the Kenya National Audit Office; (iii) financial management by the project, disbursement and accountability, and audit will receive close attention and supervision from the Kenya Country Office and the country programme management team.

## **C. Target group and participation**

### **Target group**

9. The project covers six priority divisions in each of six districts – Homa Bay (Kobama), Kuria (Masaba), Migori (Karungu), Nyamira (Nyamusi), Rachuonyo (West Karachuonyo) and Suba (Central) – which are among the poorest districts in the relatively high-potential agricultural area of Southern Nyanza, along Lake Victoria. Communities in these districts have strong socio-cultural traditions and norms, high poverty levels, weak institutional and policy infrastructure, and a higher incidence of HIV/AIDS than the national average. The target group includes approximately 500,000 people.

### **Targeting approach**

10. A vulnerability approach to targeting has been used, based on a situational assessment of divisions within districts. This has been combined with an analysis of the distribution of the population, to identify areas where the project could have a significant impact in terms of reaching a larger absolute number of poor people. Thus, the neediest divisions have been selected at the district level and, within those divisions, the neediest people and households have been identified.

### **Participation**

11. In this project, communities articulate their needs and priorities through the community action planning process, which ensures that the beneficiaries are fully involved in the planning, implementation and monitoring of project activities as well as impact assessment. Self-help groups are the focus of economic activities. Regarding HIV/AIDS, partnerships with private-sector companies such as Valid International (currently piloting innovative nutritional supplements for affected children and adults in Homa Bay) are encouraged, to create synergies and reinforce project investments in this area for greater impact. Synergies and partnerships with development partners working in the projects (e.g. the Swedish International Development Cooperation Agency on rural roads and the African Development Bank on irrigation development) will be fostered and enhanced during project implementation. The private sector will be encouraged to develop viable marketing initiatives with farmers in the project area along the value chain for various farm products.

## **D. Development objectives**

### **Key project objectives**

12. The project focuses on empowering rural communities by: (i) strengthening local institutions and community-driven development activities; (ii) improving access to health care services and safe water, and improving environmental sanitation and hygiene practices; (iii) increasing on-farm labour productivity and strengthening human capacity through improved food security and nutrition; and (iv) heightening community awareness of social behaviours and their consequences.

### **Policy and institutional objectives**

13. The key goal of the project is to reduce poverty and improve livelihoods in the communities in the project area. The institutional mechanisms established by the project will be used as a means of combating rural poverty. Innovative features include local livelihood forums, which promote community awareness of a wide range of socio-cultural issues, and support groups for vulnerable households.

### **IFAD policy and strategy alignment**

14. The project goal and specific objectives are in line with the IFAD Strategic Framework 2007-2010, which emphasizes empowering rural poor people to achieve higher incomes and improved food security through, inter alia, better access to productive natural resources and improved agricultural technologies. The project's strong focus on the poorest people in rural areas is consistent with IFAD's targeting policy.



## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The project is consistent with the Government's Strategy for Revitalizing Agriculture (SRA), a key strategic document that outlines how the national poverty reduction strategy will be implemented for the agriculture and rural development sector. This project intervention contributes directly to four pillars of the SRA. It is also anchored in the Kenya Joint Assistance Strategy and is aligned with the Kenya Vision 2030. The project intervention also addresses a key national issue, namely the prevalence of HIV/AIDS, which is a key driver of poverty with up to 14 per cent of the population infected in the project area.

### **Harmonization with development partners**

16. The Harmonization, Alignment and Coordination donor group was established in 2005 to serve as secretariat to the Donor Coordination Group and further the harmonization agenda. The United Nations agencies working in Kenya have since 2004 coordinated their activities under the United Nations Development Assistance Framework, of which IFAD is a member. Donor sector groups have been established to enhance the coordination of donor activities.

## **F. Components and expenditure categories**

### **Main components**

17. The five project components are: agriculture, community empowerment, primary health care, domestic water supply and project management.

### **Expenditure categories**

18. There are five disbursement categories: (i) civil works; (ii) vehicles, equipment and materials; (iii) training; (iv) contracts for capacity-building; and (v) incremental operating costs.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. The lead agency is the Ministry of State for Planning, National Development and Vision 2030. The project is implemented by the following key ministries, which are responsible for each of the five components: the Ministry of State for Planning, National Development and Vision 2030; the Ministry of Livestock Development; the Ministry of Water and Irrigation; the Ministry of Gender, Children and Social Development; and the Ministry of Agriculture; as well as the private sector and NGOs.

### **Implementation responsibilities**

20. The Ministry of State for Planning, National Development and Vision 2030 – acting as the lead project agency – will be responsible for coordinating project activities at the field level, with specific responsibility for leading the district-level planning process and the subsequent monitoring and reporting process. Responsibility for the execution of individual components will reside with the line ministry in each case.

### **Role of technical assistance**

21. Technical assistance will be used to strengthen local institutions through strategic outsourcing and partnerships at field level.

### **Key financing partners and amounts committed**

22. The total cost of the project is approximately US\$23.8 million. The sources of financing are: (i) an IFAD supplementary loan of approximately US\$5.9 million; (ii) the original IFAD loan of SDR 10.9 million (approximately US\$15.6 million); US\$1.8 million from the Government; and US\$0.5 million from the beneficiaries. IFAD project loan expenditure after four years of implementation totals SDR 5.5 million (equivalent to approximately US\$8.3 million), representing 50 per cent of the total project loan.

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

23. The following observations can be made regarding this project: (i) an increase in food prices in the project area has seriously eroded purchasing power among communities; (ii) despite widespread adoption of high value crops, such as pineapple, markets are located far away; adding value in the project area is therefore a priority; (iii) high-value horticultural crop production calls for more investment in microirrigation, one of the main priorities for this supplementary loan; (iv) given global warming and climate change, the project will address land degradation in the Lake Victoria catchment area, which could lead to a major environmental disaster; (v) the project will intervene directly on the effects of HIV/AIDS among its implementing communities; and (vi) most importantly, water is identified as a valid entry point for a positive change in the livelihoods of the rural poor in southern Nyanza. The injection of additional resources into the project will consolidate its investments to reach the intended target groups, while ensuring sustainability of these interventions.

### **Economic and financial viability**

24. Recent field assessments of IFAD-funded projects in Kenya by IFAD and the Government confirm that water is indeed an important entry point for community development in Kenya. Returns to farmers from microirrigation schemes are astronomical (from less than a dollar a day to over US\$50.00 a day). In addition, IFAD has been requested by the Government to play a greater role, through the country strategic opportunities programme, in rolling out the national irrigation policy. That role will be tested in this project.
25. No new components will be created with this supplementary loan. The supplementary funds will replenish funds under existing components and financing categories (in particular, the agriculture component, the health component and the domestic water component).

## **I. Knowledge management, innovation and scaling up**

### **Knowledge management arrangements**

26. The proposal for a supplementary loan is driven by lessons learned from this and other IFAD projects in Kenya. Positive lessons have been built into the strategy that is being proposed here, i.e. invest more in water-related activities and institutions in order to achieve greater sustainability and impact. Lessons will continue to be systematically drawn from this project, and monitoring and evaluation systems will be strengthened to ensure professional and efficient implementation.

### **Development innovations that the project will promote**

27. This project puts in place local community action planning as a mechanism for integrating social investments with economic empowerment activities to address poverty. The project will champion private-sector partnerships to promote appropriate technology, value addition and marketing for high-value agricultural products. Private firms such as TetraPak have already shown interest in working with the project in this area. Approaches have been developed under this project to mainstream activities to address HIV/AIDS transmission and mitigation and to improve nutrition for affected families through a private-sector-driven technology promoted by Valid International.

### **Scaling-up approach**

28. This proposal seeks to scale up technologies and approaches that have been tested and proven successful. These technologies and approaches are being scaled up in three other projects in Kenya in addition to this one. Positive lessons – in particular from the now closed Eastern Province Horticulture and Traditional Food Crops Project, regarding managing water resources for both domestic and commercial use and targeting production of high-value crops – will also be scaled up under this

proposal. Lessons on partnerships with private-sector firms are also incorporated, especially with regard to value addition, marketing and technology transfer.

## **J. Main risks**

### **Main risks and mitigation measures**

29. All of the risks identified at appraisal have been mitigated or eliminated. The project has managed to achieve relative success. The project faces three new risks: (i) political upheaval and violence; (ii) economic downturn; and (iii) effects of climate change. The risk related to political disturbances and violence will be mitigated by mainstreaming governance into capacity-building programmes at community level. With regard to the risk of economic downturn, the project has to ensure that project activities are grounded in sustainability. Climate change is currently being addressed through agroforestry planning and an aggressive water harvesting approach to agriculture and domestic water needs, which is being expanded to rain water harvesting from school and clinic roofs.

### **Environmental classification**

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have a negative environmental impact. A significant effort under this supplementary loan will go towards catchment management as part of the sustainable development of water resources in the Lake Victoria catchment area.

## **K. Sustainability**

31. Sustainability is anchored in the project's investments in institutions and infrastructure to enable the rural poor to participate effectively in livelihood development and resource utilization. With a view to ensuring an effective exit strategy, these institutions should be strengthened at all levels (community, district, province and national). Partnerships with NGOs and private-sector firms will help ensure that the sustainability of project interventions extends beyond public institutions.

## **II. Legal instruments and authority**

32. A project loan agreement between the Republic of Kenya and IFAD will constitute the legal instrument for extending the proposed supplementary loan to the borrower
33. The Republic of Kenya is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed supplementary loan will comply with the Agreement Establishing IFAD.

## **III. Recommendation**

35. I recommend that the Executive Board approve the proposed supplementary loan in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan to the Republic of Kenya in various currencies in an amount equivalent to four million special drawing rights (SDR 4,000,000) to mature on or prior to 15 December 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge  
President



## **Key reference documents**

### **Country reference documents**

Kenya Joint Assistance Strategy (KJAS)

Poverty Reduction Strategy Paper (PRSP) (2001-2004)

Economic Recovery Strategy for Wealth and Employment Creation (ERS, 2003-2007)

Vision 2030

Strategy for Revitalization of Agriculture (2004-2014)

National Policy for Sustainable Development

### **IFAD reference documents**

Southern Nyanza Community Development Project (SNCDP) – Appraisal Report (April 2004)

IFAD SF 2007 – 2010

IFAD KM Strategy

IFAD Innovation Strategy

IFAD Anti-Corruption Policy

IFAD's Regional Strategy for Eastern and Southern Africa Division

Administrative Procedures on Environmental Assessment

Various learning notes (targeting, water management)

Prerequisites of Gender Sensitive Design

Private-Sector Partnership and Development Strategy

## Logical Framework (revised)

Objectives (Programme Narrative)	Indicators of Objectives	Means of Verification	Assumptions
<b>Goal</b> Contribute to reduced poverty and improved livelihoods of communities in the project area.	1. Percentage increase in people with sustainable access to an clean and improved source of water (from 20- 45%)	- Baseline, mid-term, and PCR	Government commitment to poverty reduction continues
<b>Component 1. COMMUNITY EMPOWERMENT</b>			
<b>Component Objective (Outcome 1)</b> Improved local governance and sustainable community-driven development processes.	1. Percentage increase in proportion of members/community adopting training methods (20-55%). 2. Number of projects started by the poor and vulnerable	- Baseline, survey	Government commitment to governance continues
<b>Outputs</b> 1.1 Increased use of CAPS for area planning 1.2 Increased use of CAPS to attract funding 1.3 Governance structures functioning	1. number of CAPS generated in project area 2. Number of community projects co-financed by other agencies 3. leadership structure show gender equity at community levels	- surveys - progress reports supervision reports	
<b>Component 2. PRIMARY HEALTH CARE</b>			
<b>Component Objective (Outcome 2)</b> Improved health status of the target group	1. Reduction in prevalence of child malnutrition (weight for age) (13-7%)	- Annual surveys - Data from existing health facilities,	No major epidemic /disease outbreak in the project area
<b>Outputs</b> 2.1/2 Improved community and primary health care services	1. Number of health facilities built/rehabilitated. 2. %increase of people accessing facility-based health care (20-50%)	Survey data and data from H.C.	
<b>Component 3. DOMESTIC WATER SUPPLY</b>			
<b>Component objective (Outcome 3)</b> Improved livelihoods resulting from increased use of safe domestic and irrigation water	1. reduction in incidence of water borne diseases 2. increased application of water harvesting techniques	- Supervision reports - Annual surveys	No severe droughts occur during the project life
<b>Outputs</b> 3.1 Improved access to safe domestic water 3.2 Increased application of irrigated water 3.3 Increased production of high value crops	1. Number of persons accessing clean water against baseline (0-50%) 2. Distance to safe water points reduced from over 3km to less than 500m) 3. increase in income from high value crops (0-40% farmers benefiting)	- Household surveys - Health centre and hospital reports	
<b>COMPONENT 4. AGRICULTURE AND LIVESTOCK</b>			
<b>Component objective (Outcome 4)</b> Improved food security and nutritional status	1. % increase in farm produce sold (increase in proportion of total production that is sold) (15-30%).	- Surveys, production records	Production costs remain affordable
<b>Outputs</b> 4.1 Improved farmer knowledge and skills 4.2 Improved capacity at farm level	1. Number of farmers reporting production/yield increases in livestock and crops (average of at least 20% increase productivity for cereals and minimum 10 litres per cow for dairy)	- Surveys, production records from Ministry of Agric and Livestock - Supervision reports	
<b>COMPONENT 5. PROG. MANAGEMENT</b>			
<b>Component objective (Outcome 5)</b> Efficient project management and coordination	1. PSR rating continue to rise and 70% of interventions/activities effectively implemented as planned in AWPB	- Supervision reports and ratings -	Staff of acceptable quality and quantity available
<b>Outputs</b> 5.1 The PCU established 5.2 M and E systems functioning efficiently 5.3 Project funds properly managed	1. Suitability qualified staff in place	- Supervision reports -	

