IFAD
Investing in rural people

Kenya

Rural Kenya Financial Inclusion Facility

Partial Supervision Report

Mission Dates:	23/10/2023-24/11/2023
Document Date:	02/01/2024
Project No.	2000003431
Report No.	6705-KE

East and Southern Africa Division
Programme Management Department

Abbreviations and Acronyms

AFC	Agricultural Finance Corporation
AGRA	Alliance for a Green Revolution in Africa
AWPB	Annual Work Plan and Budget
BDS	Business Development Service
CGS	Credit Guarantee Scheme
COI	Core Outcome Indicator
DT-SACCO	Deposit Taking Savings and Credit Cooperative Organization
FSD-K	Financial Sector Deepening - Kenya
GFF	Green Financing Facility
ICT	Information and Communication Technology
IP	Implementing Partner
KM	Knowledge management
KM & C	Knowledge management and Communication
M & E	Monitoring and Evaluation
MFB	Microfinance Banks
MIS	Management and Information System
MSE	Micro and Small Enterprise
MSME	Micro Small and Medium Enterprise
NO	No Objection
NT & P	National Treasury and Planning
PC	Programme Coordinator
PFI	Partner Financial Institution
PIM	Project Implementation Manual
PMU	Project Management Unit
PROFIT	Program for Rural Outreach of Financial Innovations and Technologies
PSC	Project Steering Committee
QCBS	Quality Cost Based Selection
R-CGS	Rural Credit Guarantee Scheme
SACCO	Savings and Credit Cooperative Organization
SASRA	Sacco Societies Regulatory Authority
TA	Technical Assistance
TOR	Terms Of Reference
TSIS	Technical Support and Innovation Services
VC	Value Chain

A. Project Overview

Region:	East and Southern Africa Division	Project at Risk Status:	Not at risk
Country:	Kenya	Environmental and Social Category:	Moderate
Project Name:	Rural Kenya Financial Inclusion Facility	Climate Risk Classification:	Moderate
Project ID:	2000003431	Executing Institution:	National Treasury
Project Type:	Credit and Financial Services	Implementing Institutions:	National Treasury
CPM:	Mariatu Kamara		
Project Director:	not available yet		
Project Area:			

Approval Date:	30/12/2021	Last audit receipt:	19/12/2023
Signing Date:	02/06/2022	Date of Last SIS Mission:	24/11/2023
Entry into Force Date:	02/06/2022	Number of SIS Missions:	2
Available for Disbursement Date:	28/09/2022	Number of extensions:	0
First Disbursement Date:	24/11/2022	Effectiveness lag:	6 months
MTR Date:	not available yet		
Original Completion Date:	30/06/2028		
Current Completion Date:	30/06/2028		
Financial Closure:	not available yet		

Project total financing

IFAD Financing breakdown	IFAD	$14,740,000
	IFAD	$7,260,000
Domestic Financing breakdown	Domestic Financing Institutions	$85,750,000
	Private sector local	$2,300,000
	National Government	$24,000,000
Co-financing breakdown,	Finland	$8,546,400
Project total financing:		$142,596,400

Current Mission

Mission Dates:	23/10/2023-24/11/2023
Days in the field:	15
Mission composition:	Mariatu Kamara, Country Director / Representative, Kenya Ronald Ajengo, CPO – Institutions and Programme Management Specialist and Delegated Team Leader Paul Picot, IFAD consultant – Rural Finance Expert Nelson Oluoch, IFAD consultant – Procurement Specialist Grace Nakanjakko, IFAD consultant – Monitoring and Evaluation and Knowledge Management Specialist

Field sites visited:

B. Overall Assessment

Key SIS Indicator #1	∅	Rating
Likelihood of Achieving the Development Objective		4.0

Key SIS Indicator #2	∅	Rating
Assessment of the Overall Implementation Performance		4.0

Effectiveness and Developmental Focus	**4**
Effectiveness	4
Targeting and Outreach	4
Gender equality & women's participation	
Agricultural Productivity	N/A
Nutrition	N/A
Adaptation to Climate Change	

Project Management	**4**
Quality of Project Management	4
Knowledge Management	4
Value for Money	
Coherence between AWPB and Implementation	4
Performance of M&E System	4
Social, Environment, and Climate Standards requirements	4

Sustainability and Scaling-up	**4**
Institutions and Policy Engagement	4
Partnership-building	4
Human and Social Capital and Empowerment	
Quality of Project Target Group Engagement and Feedback	
Responsiveness of Service Providers	
Environment and Natural Resource Management	
Exit Strategy	4
Potential for Scaling-up	4

Financial Management and Execution	**4**
Acceptable Disbursement Rate	2
Quality of Financial Management	4
Quality and Timeliness of Audit	5
Counterparts Funds	5
Compliance with Loan Covenants	
Procurement	

Relevance

C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

1. The goal of RK-FINFA is poverty reduction, climate change resilience and improved livelihoods in rural areas. The Project Development Objective is increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalized rural households, women, and youth. RK-FINFA was approved in December 2022 and became effective in June 2022. The Programme total cost is USD 136.05 Million, including an IFAD Loan of USD 22 Million; GoK contribution of USD 24 Million; Private Sector Financial Institutions leveraging of USD 87.75 Million and; Implementing Partners' contribution of USD 2.3 Million. The Project Lead Agency is the National Treasury and Economic Planning.

2. To achieve the goal and development objective, the project activities are structured into three mutually reinforcing components.

3. **Component 1: Technical Support and Innovation Services (TSIS)** which aims to, (i) strengthen Participating Financial Institution (PFI) capacities for innovation, rural outreach, and green finance services in Kenya, and (ii) build MSME and smallholder sustainable investment capacities and financial literacy skills.

4. **Component 2: Rural Investment Instruments through:** (i) a Rural Credit Guarantee Scheme (R-CGS), and (ii) a Green Financing Facility (GFF), both designed as sustainable financing vehicles, which can utilize resources from the Government and interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions.

5. **Component 3: Enabling Rural Finance Environment and Project Coordination :**The joint GOK/IFAD partial supervision mission of the RK-FINFA took place from 16 October to 03 November 2023. The mission objective was to review the implementation progress and achievement of outputs, as well as provide support to the implementation of project activities. As this was the first supervision mission since project launch and start-up in September 2023, It therefore bores particular significance in supporting RK-FINFA team to fast-track implementation t recover lost ground due to delayed start-up. In this regard, the mission particularly focused on reviewing the progress made towards finalization of preparatory activities in particular set-up of the institutional structures such as Programme Steering Committee (PSC), Programme Coordinating Unit (PCU); contracting of implementing partners; finalization of baseline survey and related studies; identification of project beneficiaries and; finalization of the implementation framework for rolling out technical components in particular Technical Support and Innovation Services (TSIS) and Rural Financial Instruments. In view of this, the partial supervision mission focused on reviewing the following key aspects, which were considered critical at this stage of the project life cycle: (i) implementation arrangements (ii) institutional/partnership arrangements; (iii) project governance and management; (iv) monitoring, evaluation and knowledge management and; (v) procurement.

6. The mission was hybrid combining both in-person meetings and virtual sessions to enable the participation of two mission members who connected remotely. The mission commenced with an entry meeting on 23 October 2023 with the Director of Financial & Sectorial Affairs, who represented the Principal Secretary, the National Treasury and Economic Planning. This was followed by a series of meetings from 24 to 3 November with the PCU, Government Officers and some of the proposed RK-FINFA implementing partners FSD-K, AGRA, CORDAID and AFC. The mission also held working sessions with the PCU to support the team review and support the finalization of the Annual Work Plan and Budget and (AWPB) and Procurement Plan (PP) for 2023/24 as well as the terms of reference for the procurement of key implementing partners. A technical wrap-up meeting with the PSC and PCU took place on 27 October 2023 to discuss the preliminary findings and recommendations. Final wrap-up meeting and the signing of the Aide Memoir with the Principal Secretary, National Treasury and Economic Planning will be held in early January 2024.

7. The mission would like to express appreciation to the Government of Kenya for the hospitality and courtesies extended, the PSC, PCU, and project partners, for the cooperation and support accorded.

Key Mission Agreements and Conclusions

8. The mission noted that the project has suffered delayed start-up due to delays in recruitment of key staff, however, the PCU is now fully established and all recruited staff have been on-boarded. The initial focus of the project has been in establishment of systems necessary for its efficient and effective management. As the complete team is now in place as well as the PSC, there is need to fast track activities to ensure that all partnerships and systems are in place to roll-out the project intervention and commence support to the project beneficiaries during the first quarter of 2024. The following are the key mission agreements and conclusions:

9. **Agreements with Implementing Partners:** At design, key implementing partners (IPs), AGRA and CORDAID had been identified for the TSIS component and FSD-K for Enabling Environment Sub-component. Additionally, AFC had been identified as a possible operator of the GFF sub-component. The mission was informed that PCU had earlier developed draft agreements for the contracting of these IPs but was later advised by IFAD that the contracting of the IPS needed to follow due procurement process under direct contracting modalities. Consequently, the PCU developed terms of references (TORs) and Request for Proposals (RFPs) for the contracting of the IPs. The mission supported the PCU to strengthen and harmonize the TOR and RFP prior to submission to the IPs. *The mission recommends that the process of contracting these IPs be accelerated and the agreements concluded before end of December 2023 to pave way for rolling-out of the project interventions. Additionally, the subsidiary agreement with AFC, which at the time of mission was under review by the Attorney General, be conclude by the same date to facilitate ope-rationalization of the GFF sub-component.*

10. **Targeting of project beneficiaries:** The mission was informed that a draft project targeting strategy has been developed and will be submitted to IFAD for review and IFAD's No Objection. Considering that RK-FINFA is designed to synergize and leverage

on on-going IFAD funded value chain projects in the portfolio by prioritizing the beneficiaries of these value chain projects for the RK-FINFA TA and financing instruments, there is need to engage with the ongoing projects KCEP-CRAL, ABDP and KeLCoP to develop clear strategy of identifying beneficiaries for the RK-FINFA project. *It is therefore recommended that the PCU engages with the IFAD VC projects to specify respective roles and responsibilities of these Projects and RK-FINFA as regards identification of RK-FINFA beneficiaries. The decisions/agreements should be documented in proceedings of the meetings.*

11. **Policy Bottlenecks:** The mission is pleased to note that the National Treasury and Economic Planning approved the R-CGS addendum in September 2023, paving the way for the creation of a rural window to implement the RK-FINFA R-CGS sub-component under the current CGS. That notwithstanding, a few policy bottlenecks need to be addressed for effective implementation of the RK-FINFA financing instruments. Firstly, the CGS regulations provide that eligible borrowers must be formally registered businesses, potentially locking out smallholder farmers that form most of RK-FINFA beneficiaries. Secondly, loans to financial intermediaries are not eligible for guarantee under the CGS, meaning that the wholesale financing to last mile financial institutions envisaged under RK-FINFA would not be guaranteed. Lastly, under the current PFM Act, there is no mechanism for the Government to lend public funds to private commercial banks for on-lending. This confines the operation of the GFF to the state-owned Agricultural Finance Cooperation (AFC) only, potentially limiting the outreach of this facility. *The mission strongly recommends that the PCU and FSD-K, in consultation with the National Treasury and Economic Planning develops a clear road map to address these policy bottlenecks.* Specifically, *CGS management to submit a plan for addressing regulatory issues (wholesale lending and registration of end borrowers), together with needs for TA from the Project to implement the plan.*

12. **Project Governance:** The mission is pleased to note that the PSC has been established in accordance with the provisions of the Project Design Report. The mission was informed that given the need for RK-FINFA to create synergy and complementarity with other IFAD financed projects/programmes in the portfolio and in view of the recent re-organization of Government Departments under the new Administration, IFAD recently recommended expanding the PSC to make it more effective. *The proposed changes in the PSC have been implemented. Additionally, the PSC has established two sub-committees (HR and Audit) to effectively carry out its mandate however, only the HR sub-committee has been active. The mission recommends re-activation of the finance/audit sub-committee and creation of a technical sub-committee.*

13. **Project Management and Coordination:** The mission is pleased to note that the Project Coordination Unit (PCU) has been established with a fully functioning team. The mission noted that there is need to recruit a Value Chain Officer. The PCU informed the mission of the need to enhance the M&E and KM function through recruitment of an M&E and KM Officer to report to the Senior M&E Specialist. *The mission agrees with the request and recommends the recruitment of these two positions to complete the PCU staff establishment.*

14. **Work Planning and Budgeting:** The mission noted delays in preparation and submission of the AWPB and PP for IFAD No Objection. The mission reviewed the draft AWPB, & PP and provided the PCU with comments and guidelines for finalization of AWPB & PP. *The mission strongly recommends the PCU: (i) enhances work planning process to ensure timely submission of AWPB and PP; involvement of key stakeholders and partners; collaboration/joint sessions with on-going projects to avoid duplication and ensure complementarity of interventions; (ii) adopts activity-based work planning/budgeting adhering to the project cost tables, to ensure necessary details are provided for the purposes of monitoring implementation and budgetary control.*

15. **Monitoring, Evaluation and Knowledge Management:** The mission is pleased to note that the PMU has developed a draft M & E Plan, M&E staff recruited and processes for setting up the M & E system initiated. The log frame as developed at design is still relevant and will be the foundation onto which all M & E processes will be anchored but note that output indicators in the log frame will be updated in liaison with the IPs once they are contracted. Procurement of the consultancy firm to carry out the baseline is at an advanced stage, and it is expected the study will be completed by end of Q1 2024. *The mission recommends the project accelerates the design and ope-rationalization the M&E and KM system and MIS to support day-to-day monitoring of the project as well as finalize the development of the KM and Communication strategy and action plan. Furthermore, there is need to finalize the baseline survey in conformity to the IFAD COI survey guidelines.*

D. Overview and Project Progress

16. RK-FINFA entered into force on 2 June 2022, and programme implementation has been delayed by more than one year, due mostly to delays in PMU staff recruitment. The focus of the project so far has been in establishment of systems necessary for its efficient and effective management. At the time of the mission, the following key achievements have been noted: (i) R-CGS addendum was approved by the National Treasury in September 2023; (ii) Agreement with the Agricultural Finance Corporation (AFC) as host for the GFF has been cleared by IFAD. The agreement was however yet to be cleared by Attorney General; (iii) The Project Steering Committee (PSC) has been established; (iv) PMU key staff has been recruited and onboarded; (v) The PIM was updated in November 2022 and June 2023; (vi) The Start-up workshop was held in September 2023; (vii) A designated account with the Central Bank of Kenya was opened on 22 July 2022; and (viii) Disbursement on Loan I to the project is at EUR 5,432,988.

17. Terms of Reference have been developed for the three implementing partners for TSIS component (AGRA and CORDAID) and for the sub-component 3.1 (FSD-K), and proposals submitted to the Project by these three IPs. However, the process was not compliant with IFAD procurement methods. The AWPB 2023 – 2024 was yet to be approved.

Component 1: Technical Support and Innovation Services (TSIS)

18. Through two fully inter-linked sub-components, the RK-FINFA TSIS is designed to: (i) Strengthen Financial Institution (FI)

capacities for innovation, rural outreach and green finance services in Kenya, and; (ii) Build MSME and smallholder farmers sustainable investment capacities and financial literacy skills. Both aspects of the TSIS, supply and demand side, are embedded into the rural growth strategies of the Partner Financial Institutions (PFIs) and support the effective use of the resources provided through the project's Investment Instruments Component. The TSIS thematic areas vary for each PFI. The component includes two sub-components: Sub-component 1.1. PFI Capacity Building for Rural Outreach and Innovation, which purpose is to improve the capacity of Partner Financial Institutions (PFIs) to provide financial services to rural agricultural chain actors. The expected outputs include: (i) five participating commercial banks capacity improved to invest in agriculture VCs; (ii) six participating MFBs and 30 DT-SACCOs capacity improved to provide rural and agriculture financial services; (iii) the capacity of all 41 PFIs built to implement and monitor green investment portfolios; and (iv) Environmental and Social Management Systems operationalized by the PFIs; Sub-component 1.2. Business Development Services for Agribusinesses and Smallholders, which expected outputs are (i) 1,500 small and micro-enterprises receive BDS and are able to submit bankable business plans; and (ii) 50,000 male and female smallholder producers receive financial literacy training including for preparation of simple business plans appropriate for PFIs loan applications

19. At design, two implementing partners had been identified for the implementation of this component, AGRA and CORDAID. At the time of the mission, the PMU had developed ToRs based on proposals by AGRA, CORDAID as well as FSD-K, identified implementing partner for the sub-component 1.3, which had also proposed to implement activities for capacity building of PFIs under sub-component 1.1. The mission was also informed that the three IPs had reached a tentative agreement on distribution of tasks (in geographical as well as areas of technical assistance, based on their experience and comparative advantages[1].

20. The mission supported the PMU to strengthen and harmonize the ToRs by including the following sections: (i) Background information including a justification for the single sourcing of the partner; (ii) Objectives of the assignment and scope of work; (iii) Expected Outputs and deliverables of the assignment; (iv) Approach to deliver expected RK-FINFA results, including in terms of; collaboration with other IFAD projects and PFIs for selection of the project beneficiaries and definition of the contents of the TA to the project beneficiaries; collaboration and complementarities between the IPs, to avoid duplication of activities; collaboration with the managers of the financial instruments in component 2 (R-CGS and GFF); (v) Detailed description of activities and implementation schedule; (vi) Expected resources to be deployed by the IP (co-financing, staffing, etc); (vii) Implementation modalities (including recruitment of TSPs); (viii) M&E and KM requirements; (ix) Risk mitigation strategies; (x) Gender and Youth mainstreaming requirements and (xi) Scaling up and sustainability plans.

21. The mission also recommended to partner only with AGRA and CORDAID for the TSIS component, and that FSD-K should be the implementing partner for the Sub-component 1.3 only, as specified in the PDR. The mission further recommended to relaunch the contracting process of the IPs in alignment with IFAD procedures for single sourcing.

22. As the ToRs have been revised during the mission, the PMU will submit for IFAD's No Objection together with the RFPs. Next steps will be the submission of the ToRs to AGRA and CORDAID, submission of the proposals by the IPs, review of proposals by the PMU for IFAD's no objection, PMU negotiations with the IPs and signature of the agreements, that should be effective latest December 20, 2023.

23. The mission recommended that, based on the approved proposals by the IPs, and in consultation with the managers of the financial instruments, a table describing for each implementation step the roles and responsibilities of each actor (IPs, PFIs, IFAD VC projects, Financial instruments managers and PMU), operational tools and timelines should be developed by the PMU and inserted in the PIM after IFAD's no objection. Sequencing of activities between components should be clear for all implementers.

24. The mission observed that the initial proposals by the IPs build on approaches already developed and implemented by the IPs, but the final proposals should clearly demonstrate how these will actually contribute to RK-FINFA results for each sub-component.

25. According to the PDR, PFIs should be on-boarded by the TSIS IPs through EOI. The mission recommended that the financial instrument managers (R-CGS and GFF) should be consulted during the process and give their approval for the selection of the PFIs, following a process that should be developed in consultation between the PMU, the IPs and R-CGS / GFF.

26. Contents of the Technical Assistance (TA) to project beneficiaries on BDS and financial literacy should build on what has been already done by IFAD VC projects or other actors and customized accordingly.

27. RK-FINFA focusing on BDS and financial literacy, discussions should be held with IFAD financed VC projects on how technical and agronomic support could be provided to smallholder farmers and rural MSMEs (especially for green investments). Lack of adequate technical and agronomic support will indeed affect creditworthiness of the project beneficiaries.

28. Modalities of partnership with the IFAD VC projects should be further discussed with these projects together with the IPs and be documented in Proceedings of the meetings. PIM should be updated accordingly.

Component 2: Rural investment instruments

29. The RK-FINFA will operate with two Rural Investment Instruments: (i) a Rural Credit Guarantee Scheme (R-CGS), and (ii) a Green Financing Facility (GFF). Both the R-CGS and the GFF will be designed as sustainable financing vehicles, which can utilize resources from the GoK and from interested international financiers to unlock private investment into Kenya's agricultural and agribusiness sector at attractive market terms through Kenyan financial institutions. The Technical Support and Innovation Services packages under Component 1 will support the PFIs in the implementation of the rural investment instruments, in line with each PFI's respective rural and agriculture finance strategy.

30. **Sub-component 2.1: Rural credit guarantee scheme**

31. R-CGS Addendum was adopted by the CGS steering committee and approved by the National Treasury. It includes 3 products: direct lending, value chain financing through SMEs and wholesale lending for MFBs and DT SACCOs.

32. Two issues that may affect project results have been highlighted during the mission:

- Wholesale financing will only become applicable once the CGS regulations and the related guidelines are revised and approved to accommodate financial intermediaries as borrowers of the guaranteed funds.
- PFIs Guaranteed portfolios should only include registered business, which excludes the large majorities of smallholder farmers.

33. These two issues may affect outreach to smallholder farmers and to non-registered rural MSMEs. As it stands, smallholder farmers could be reached only through registered entities like off-takers / processors under the value chain financing approach (and will be considered as indirect beneficiaries) or through farmers organizations (but there is need to check which types of farmers organizations can be considered as registered businesses).

34. There is need to have a clear plan on how and when these two issues could be addressed through revision of GCS regulations, noting that FSD-K should be mobilized to provide support to address these regulatory issues under SC 3.1.

35. Some features of the products like risk coverage ratio could be revised to account for the different risk level of end clients and to provide incentives for undeserved clients: risk coverage for women and youth could for instance be increased from 50 to 70%, as practiced by many guarantee schemes. Other features like loan maturities, repayment schedule and collateral's could also be adjusted at a later stage based on proposals by on-boarded PFIs. It was confirmed by the CGS management that these features could be revised through approval of the CGS Steering committee.

36. **Sub-component 2.2: Green Financing Facility**

37. The GFF subsidiary agreement between GOK and AFC as host institution was finalized and was cleared by IFAD. The agreement is at the Attorney General office for clearance before signing. The mission made some comments to improve the proposed template for agreement with PFIs.

38. 50% of the total GFF amount will be covered by this agreement (to give room to sign with other Host financial institutions once regulatory constraints have been removed – See sub-component 3.1).

39. The GFF operations manual along with the green taxonomy have been developed and submitted to AFC and IFAD for review.

40. The mission noted that AFC has experience and the tools to manage wholesale lending for MFBs and DT SACCOs but expressed support particularly in areas related to capacity building on green financing and integration of PFIs & AFC MIS systems. FSD-K also proposed to provide support to AFC to enhance capacities of AFC as host institution for the GFF. It however remained to clarify if this TA will be done through the AFD parallel financing or should be included in the ToRs for the TSIS IPs.

41. **Component 3: Enabling Rural Finance Environment and Project Coordination**

42. **Sub-Component 3.1: Enabling Rural Finance Environment**

43. The purpose of this Sub-component is to promote the creation of a conducive policy and institutional environment for increased rural financial intermediation, to support rural and agriculture transformation in Kenya. For a focused RK-FINFA approach, the relatively limited project resources allocated to the Sub-component will largely and in priority be directed to the development of institutional arrangements that support the medium and longer-term development of a more conducive operational environment for the Rural Credit Guarantee Scheme and the Green Financing Facility. FSD-K was identified at design as the implementing partner for the sub-component.

44. The detailed implementation progress and main issues are outlined under Chapter E, (ii) Institutions and Policy Engagement section of the report.

45. [1] Cordaid would focus on 7 western counties, and support to SACCOs and MFBs in these counties, as well as rural MSMEs and smallholder farmers. AGRA would focus on the 7 other counties identified for phase 1, support to PFIs, rural MSMEs and smallholder farmers. AGRA would also provide support to all commercial banks. FSD-K would provide specific support on PFI capacity building.

Agreed Action	*Responsibility*	*Agreed Date*
Theory of Change Regularly review the respective project Theory of Change to inform any adjustments to the implementation strategy. continuous	PCU	12/2023

Project Outreach Ensure the project outreach is accurately captured to exclude any multiple reporting. Account for overlaps where they exist.	PCU	12/2023
Core Outcome Indicators Pay particular attention while capturing and reporting data against the CIs. Ensure that appropriate interpretation of results is done before results are entered in the logframe to maintain accuracy	PCU	12/2023
Logframe Revision Data for all proposed indicators for retrofitting should also be captured and kept until the appropriate time for retrofitting is done.	PCU	12/2023
Results Monitoring Strengthen institutional focus on results ensuring that implementation plans are guided by expected targets to be reached by the programmes	PCU	12/2023
Outreach strategies Develop clear outreach strategies to ensure that activities with a shorter path to results (low hanging fruits) are prioritised while simultaneously initiating activities with a longer path to results	PCU	12/2023
Gender, Youth and Vulnerability groups targeting Develop and implement clear outreach strategies for women, youth and other vulnerable categories. Ensure that all people related data in the logframe is clearly disaggregated by sex, age, and relevant vulnerability categories	PCU	12/2023
Utilisation of M&E data Enhance utilisation of M & E data particularly from outcome and thematic studies to inform logframe updates and management decisions on adjusting implementation strategies. Ensure adequate data analytics, interpretation of results and utilisation in narrative progress reports. continuous	PCU	12/2023
Data management Establish and maintain robust data management systems at all levels to ensure consistency in data capture and minimise gaps in monitoring data. continuous	PCU	12/2023
M&E Budget Provide adequate budget for M&E activities. continuous	PCU	12/2023
Cross learning Reinstate M & E Thematic Groups to enhance learning and experience sharing among M&E teams. In addition, encourage experience sharing during portfolio review forum. continuous	PCU/IFAD	12/2023
Capacity Building on M&E and CI Framework Regularly organise capacity building sessions for M&E. Ensure that refresher training is provided to project teams on updated CI framework and guidelines. continuous	PCU/IFAD	12/2023
Core Outcome Indicators Pay particular attention while capturing and reporting data against the CIs. Ensure that appropriate interpretation of results is done before results are entered in the logframe to maintain accuracy	PCU	12/2023

Logframe Revision Data for all proposed indicators for retrofitting should also be captured and kept until the appropriate time for retrofitting is done.	PCU	12/2023
Results Monitoring Strengthen institutional focus on results ensuring that implementation plans are guided by expected targets to be reached by the programmes	PCU	12/2023
Outreach strategies Develop clear outreach strategies to ensure that activities with a shorter path to results (low hanging fruits) are prioritised while simultaneously initiating activities with a longer path to results	PCU	12/2023
Gender, Youth and Vulnerability groups targeting Develop and implement clear outreach strategies for women, youth and other vulnerable categories. Ensure that all people related data in the logframe is clearly disaggregated by sex, age, and relevant vulnerability categories	PCU	12/2023
Utilisation of M&E data Enhance utilisation of M & E data particularly from outcome and thematic studies to inform logframe updates and management decisions on adjusting implementation strategies. Ensure adequate data analytics, interpretation of results and utilisation in narrative progress reports. continuous	PCU	12/2023
Data management Establish and maintain robust data management systems at all levels to ensure consistency in data capture and minimise gaps in monitoring data. continuous	PCU	12/2023
M&E Budget Provide adequate budget for M&E activities. continuous	PCU	12/2023
Cross learning Reinstate M & E Thematic Groups to enhance learning and experience sharing among M&E teams. In addition, encourage experience sharing during portfolio review forum. continuous	PCU/IFAD	12/2023
Capacity Building on M&E and CI Framework Regularly organise capacity building sessions for M&E. Ensure that refresher training is provided to project teams on updated CI framework and guidelines. continuous	PCU/IFAD	12/2023
Resources for implementation Ensure that adequate resources (human and financial) are provided for all technical and support functions. Cross cutting themes should especially have staff in the project teams and independent budget lines to ensure prioritisation of reporting on these areas. continuous	PCU/IFAD	12/2023

Implementation Strategy and Plan i. Seek guidance from IFAD procurement on how to expedite recruitment of TAs ii. Liaise with ongoing IFAD supported programs in the portfolio to an indicative number of ready beneficiaries to link to FIs/Financial instruments. Prioritise and target to start with commercial ready (category 2) beneficiaries supported by KCEP-CRAL project. Develop guidelines on criteria to be used to identify potential beneficiaries. These should be aligned to the respective beneficiary profiles and to the requirements set by the partner FIs iii. Rescope the training interventions to exclude retraining beneficiaries who have already received financial literacy training by the ongoing VC projects. iv. Seek guidance from IFAD ECG division on the development of guidelines for the GFF and determination of targets for indicator CI 3.2.1 to be retrofitted at start-up to replace CI 3.2.2	PC and Rural Finance Specialist	12/2023
Baseline Survey Prioritise and expedite the baseline survey as soon as the project is launched. Ensure alignment to COI survey guidelines while conducting the baseline survey.	PCU M&E Team	12/2023
Data Management Establish a robust data management system at project level and at IP level. continuous	M&E and Rural Finance Specialist	12/2023
M&E Capacity Orient and build capacity of new staff on data management, M&E and IFAD CI requirements. continuous	IFAD	12/2023
Theory of Change Ensure that the ToC is regularly reviewed to inform the implementation strategy and Logframe results. continuous	PCU/IFAD	12/2023
Logframe Seek Guidance and request for No-objection to have the project logframe retrofitted with the right indicators as discussed immediately after project launch in September 2023.	PCU	12/2023
Project Outreach i. Clarified as 68,000 persons receiving project services directly (50,000 SHF 18, 000 Microenterprise beneficiaries) ii. 68,000 households iii. 319,600 Household members iv. While tracking the outreach take note of the intervention pathway for the beneficiaries to avoid including beneficiaries who have only been enrolled into the programme and have not received any interventions from the project to be included in the outreach.	PCU/IFAD	12/2023
Implementation Strategy and Plan i. Seek guidance from IFAD procurement on how to expedite recruitment of TAs ii. Liaise with ongoing IFAD supported programs in the portfolio to an indicative number of ready beneficiaries to link to FIs/Financial instruments. Prioritise and target to start with commercial ready (category 2) beneficiaries supported by KCEP-CRAL project. Develop guidelines on criteria to be used to identify potential beneficiaries. These should be aligned to the respective beneficiary profiles and to the requirements set by the partner FIs iii. Rescope the training interventions to exclude retraining beneficiaries who have already received financial literacy training by the ongoing VC projects. iv. Seek guidance from IFAD ECG division on the development of guidelines for the GFF and determination of targets for indicator CI 3.2.1 to be retrofitted at start-up to replace CI 3.2.2	PC and Rural Finance Specialist	12/2023

Baseline Survey Prioritise and expedite the baseline survey as soon as the project is launched. Ensure alignment to COI survey guidelines while conducting the baseline survey.	PCU M&E Team	12/2023
Data Management Establish a robust data management system at project level and at IP level. continuous	M&E and Rural Finance Specialist	12/2023
M&E Capacity Orient and build capacity of new staff on data management, M&E and IFAD CI requirements. continuous	IFAD	12/2023
Theory of Change Ensure that the ToC is regularly reviewed to inform the implementation strategy and Logframe results. continuous	PCU/IFAD	12/2023
Logframe Seek Guidance and request for No-objection to have the project logframe retrofitted with the right indicators as discussed immediately after project launch in September 2023.	PCU	12/2023
Project Outreach i. Clarified as 68,000 persons receiving project services directly (50,000 SHF 18, 000 Microenterprise beneficiaries) ii. 68,000 households iii. 319,600 Household members iv. While tracking the outreach take note of the intervention pathway for the beneficiaries to avoid including beneficiaries who have only been enrolled into the programme and have not received any interventions from the project to be included in the outreach.	PCU/IFAD	12/2023

E. Agreed Actions

Agreed Action	*Responsibility*	*Agreed Date*
Overview and Project Progress		
Theory of Change Regularly review the respective project Theory of Change to inform any adjustments to the implementation strategy. continuous	PCU	12/2023
Project Outreach Ensure the project outreach is accurately captured to exclude any multiple reporting. Account for overlaps where they exist.	PCU	12/2023
Core Outcome Indicators Pay particular attention while capturing and reporting data against the CIs. Ensure that appropriate interpretation of results is done before results are entered in the logframe to maintain accuracy	PCU	12/2023
Logframe Revision Data for all proposed indicators for retrofitting should also be captured and kept until the appropriate time for retrofitting is done.	PCU	12/2023

Results Monitoring Strengthen institutional focus on results ensuring that implementation plans are guided by expected targets to be reached by the programmes	PCU	12/2023
Outreach strategies Develop clear outreach strategies to ensure that activities with a shorter path to results (low hanging fruits) are prioritised while simultaneously initiating activities with a longer path to results	PCU	12/2023
Gender, Youth and Vulnerability groups targeting Develop and implement clear outreach strategies for women, youth and other vulnerable categories. Ensure that all people related data in the logframe is clearly disaggregated by sex, age, and relevant vulnerability categories	PCU	12/2023
Utilisation of M&E data Enhance utilisation of M & E data particularly from outcome and thematic studies to inform logframe updates and management decisions on adjusting implementation strategies. Ensure adequate data analytics, interpretation of results and utilisation in narrative progress reports. continuous	PCU	12/2023
Data management Establish and maintain robust data management systems at all levels to ensure consistency in data capture and minimise gaps in monitoring data. continuous	PCU	12/2023
M&E Budget Provide adequate budget for M&E activities. continuous	PCU	12/2023
Cross learning Reinstate M & E Thematic Groups to enhance learning and experience sharing among M&E teams. In addition, encourage experience sharing during portfolio review forum. continuous	PCU/IFAD	12/2023
Capacity Building on M&E and CI Framework Regularly organise capacity building sessions for M&E. Ensure that refresher training is provided to project teams on updated CI framework and guidelines. continuous	PCU/IFAD	12/2023
Core Outcome Indicators Pay particular attention while capturing and reporting data against the CIs. Ensure that appropriate interpretation of results is done before results are entered in the logframe to maintain accuracy	PCU	12/2023
Logframe Revision Data for all proposed indicators for retrofitting should also be captured and kept until the appropriate time for retrofitting is done.	PCU	12/2023
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M&E Budget Provide adequate budget for M&E activities. continuous	PCU	12/2023
Cross learning Reinstate M & E Thematic Groups to enhance learning and experience sharing among M&E teams. In addition, encourage experience sharing during portfolio review forum. continuous	PCU/IFAD	12/2023
Capacity Building on M&E and CI Framework Regularly organise capacity building sessions for M&E. Ensure that refresher training is provided to project teams on updated CI framework and guidelines. continuous	PCU/IFAD	12/2023
Resources for implementation Ensure that adequate resources (human and financial) are provided for all technical and support functions. Cross cutting themes should especially have staff in the project teams and independent budget lines to ensure prioritisation of reporting on these areas. continuous	PCU/IFAD	12/2023
Implementation Strategy and Plan i. Seek guidance from IFAD procurement on how to expedite recruitment of TAs ii. Liaise with ongoing IFAD supported programs in the portfolio to an indicative number of ready beneficiaries to link to FIs/Financial instruments. Prioritise and target to start with commercial ready (category 2) beneficiaries supported by KCEP-CRAL project. Develop guidelines on criteria to be used to identify potential beneficiaries. These should be aligned to the respective beneficiary profiles and to the requirements set by the partner FIs iii. Rescope the training interventions to exclude retraining beneficiaries who have already received financial literacy training by the ongoing VC projects. iv. Seek guidance from IFAD ECG division on the development of guidelines for the GFF and determination of targets for indicator CI 3.2.1 to be retrofitted at start-up to replace CI 3.2.2	PC and Rural Finance Specialist	12/2023
Baseline Survey Prioritise and expedite the baseline survey as soon as the project is launched. Ensure alignment to COI survey guidelines while conducting the baseline survey.	PCU M&E Team	12/2023
Data Management Establish a robust data management system at project level and at IP level. continuous	M&E and Rural Finance Specialist	12/2023

M&E Capacity Orient and build capacity of new staff on data management, M&E and IFAD CI requirements. continuous	IFAD	12/2023
Theory of Change Ensure that the ToC is regularly reviewed to inform the implementation strategy and Logframe results. continuous	PCU/IFAD	12/2023
Logframe Seek Guidance and request for No-objection to have the project logframe retrofitted with the right indicators as discussed immediately after project launch in September 2023.	PCU	12/2023
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Theory of Change Ensure that the ToC is regularly reviewed to inform the implementation strategy and Logframe results. continuous	PCU/IFAD	12/2023

Logframe Seek Guidance and request for No-objection to have the project logframe retrofitted with the right indicators as discussed immediately after project launch in September 2023.	PCU	12/2023
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Development Effectiveness		
Implementation Plan Develop a clear implementation plan for the entire project period, detailing the activities to be implemented with clear timelines, proper sequencing of activities and strategies for accelerating implementation to recover lost time.	PCU	12/2023
Accelerate implementation of identified activities Prioritise and accelerate implementation of identified preliminary activities to ensure timely achievement of project results. Ensure that activities that require to go through procurement processes are prioritised to facilitate timely delivery of their targets.	PCU	12/2023
Sustainability and Scaling up		
Agreement with FSD-Kenya Fast-tracking signing the agreement with FSD-K, ensuring that the agreement is developed after clarifying the roles of FSD-K with that of AGRA and CORDAID to avoid duplication of interventions on the supply side TA	PCU	12/2023
Agreements with IPs Fast track the procurement and contracting of the AGRA, CORDAID and FSD-K under direct contracting modalities. In this regard revise the TORs and RFP based on the mission comments and ensure IFAD's No Objection is sought at each key stage of the process.	PCU/TNTEP	12/2023
Agreement with GFF Host institution Fast track signature of the agreement with AFC as GFF host institution.	PCU / TNTEP	12/2023
Agreement for PFI under the GFF Improve template for agreement with PFIs under the GFF based on mission comments.	AFC / PCU	12/2023
Revision of R-CGS addendum Propose revisions to the R-CGS addendum based on proposals by IPs and PFIs (to be approved by CGS Steering Committee).	CGS / PCU	12/2023
Update of the PIM Update of the PIM for specifications of implementation modalities (including table describing responsibilities for each implementation step under TSIS component), roles and responsibilities for the IFAD VC Projects.	PMU/IFAD	12/2023

Roadmap for addressing policy bottlenecks Develop a clear road-map to address the identified policy bottlenecks. Specifically, strategy and plan for addressing regulatory issues (wholesale lending and registration of end borrowers) under CGS and development of GFF regulations for commercial banks participation.	TNTEP/PCU/ and FSD-K	01/2024
Project Management		
Enhance Project Governance Implement the recent proposed changes in expanding the PSC. Additionally, re-activate the finance/audit sub-committee and create a technical sub-committee of the PSC.	The National Treasury and Economic Planning (TNTEP)	12/2023
Strengthen Project Management and Coordination Enhance coordination to ensure timely launch and implementation of activities. In this regard, develop a clear implementation plan for the entire project period, detailing the activities to be implemented with clear timelines, proper sequencing as strategies for accelerating implementation to recover lost time.	PCU	12/2023
Recruit a KM and Communication Officer Ensure that the KM Officer also supports the M & E function	PMU - PC	12/2023
M & E Plan Update the plan to include the indicator reference tracking table. In addition, include detailed data collection and reporting templates	Senior M&E Specialist	12/2023
Strengthen Project Management and Coordination Finalize recruitment of the remaining two positions (Value Chain Finance Officer and M&E and KM Officer) to complete the PCU staff establishment.	TNTEP / PCU	01/2024
Strengthen Work Planning and Budgeting Adopt activity-based work planning/budgeting adhering to the project cost tables, to ensure necessary details are provided for the purposes of monitoring implementation and budgetary control.	PCU	03/2024
Finalise the development of a KM and Communication strategy Finalise the development of the KM and Communication strategy and action plan to effectively guide KM & C activities within the project. Ensure alignment with the IP strategies for harmonised messaging and to enhance ownership	KMCO	03/2024
Baseline Survey Ensure the baseline is carried out in line with the IFAD ORMS COI survey guidelines.	Senior M&E Specialist	03/2024
Strengthen Work Planning and Budgeting Enhance work planning process to ensure timely submission of AWPB and PP; involvement of key stakeholders and partners; collaboration/joint sessions with on-going projects to avoid duplication and ensure complementarity of interventions.	PCU	04/2024
MIS Design and operationalise the project MIS to support day-to-day monitoring of the project. The procurement process should commence not later than mid-November 2023 for the system to be operational before the end of the fiscal year in June 2024. Ensure harmonization and alignment of the MIS with M & E systems at IP level. Ensure relevant training is provided to key users of the system at PCU and IP levels.	Senior M&E Specialist	06/2024

Financial Management & Execution		
Commence recognition of in-kind contributions from GoK to the project. Commence recognition of in-kind contributions from GoK to the project. Commence recognition of in-kind contributions commencing with the office premises at the PMCU and any county government staff seconded to the project.	Programme Coordinator	03/2024

Kenya

Rural Kenya Financial Inclusion Facility

Partial Supervision Report

Appendix 7: Integrated Project Risk Matrix (IPRM)

Mission Dates:	23/10/2023-24/11/2023
Document Date:	02/01/2024
Project No.	2000003431
Report No.	6705-KE

East and Southern Africa Division
Programme Management Department

Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context	**Substantial**	**Moderate**
Political Commitment	*Substantial*	*Moderate*
Governance	*Substantial*	*Moderate*
Macroeconomic	*Substantial*	*Moderate*
Fragility and Security	*Moderate*	*Moderate*
Sector Strategies and Policies	**Substantial**	**Moderate**
Policy alignment	*Substantial*	*Moderate*
Policy Development and Implementation	*Substantial*	*Moderate*
Environment and Climate Context	**Substantial**	**Moderate**
Project vulnerability to environmental conditions	*Substantial*	*Moderate*
Project vulnerability to climate change impacts	*Substantial*	*Moderate*
Project Scope	**Moderate**	**Low**
Project Relevance	*Moderate*	*Low*
Technical Soundness	*Moderate*	*Low*
Institutional Capacity for Implementation and Sustainability	**Substantial**	**Moderate**
Implementation Arrangements	*High*	*Moderate*
Monitoring and Evaluation Arrangements	*Moderate*	*Moderate*
Project Financial Management	**Substantial**	**Moderate**
Project Organization and Staffing	*Moderate*	*Moderate*
Project Budgeting	*Substantial*	*Substantial*
Project Funds Flow/Disbursement Arrangements	*Substantial*	*Substantial*
Project Internal Controls	*Substantial*	*Substantial*
Project Accounting and Financial Reporting	*Moderate*	*Moderate*
Project External Audit	*Moderate*	*Low*
Project Procurement	**Moderate**	**Moderate**
Legal and Regulatory Framework	*Low*	*Low*
Accountability and Transparency	*Moderate*	*Moderate*
Capability in Public Procurement	*Substantial*	*Moderate*
Public Procurement Processes	*Moderate*	*Moderate*
Environment, Social and Climate Impact	**Moderate**	**Low**
Biodiversity Conservation	*Moderate*	*Low*
Resource Efficiency and Pollution Prevention	*Moderate*	*Low*
Cultural Heritage	*Substantial*	*Moderate*
Indigenous People	*Moderate*	*Low*
Labour and Working Conditions	*Substantial*	*Moderate*
Community Health and Safety	*Low*	*Low*
Physical and Economic Resettlement	*Low*	*Low*
Greenhouse Gas Emissions	*Low*	*Low*
Vulnerability of target populations and ecosystems to climate variability and hazards	*Low*	*Low*

Risk Category / Subcategory	Inherent risk	Residual risk
Stakeholders	**Substantial**	**Moderate**
Stakeholder Engagement/Coordination	*Substantial*	*Moderate*
Stakeholder Grievances	*Moderate*	*Low*
Overall	**Substantial**	**Moderate**

Country Context	**Substantial**	**Moderate**
Political Commitment	***Substantial***	***Moderate***
Risk: Risk(s): The GoK has reiterated its support to sound macroeconomic policies, as well as to agricultural and rural policies based on increased private-sector focus and much increased emphasis on smallholder participation in key agricultural value chains. Similarly, as discussed in SECAP in detail, the policy framework for CC and environmental policies as well as appropriate gender and youth policies is largely in place. However, the rapidly increased public debt, which has accelerated due to COVID-19, can be seen as a major risk for political commitment to implement the above policies in practice. The increased public debt, combined with the upcoming 2022 general elections, may impact the GoK ability to adhere to commitments on counterpart funding. This can endanger the both the approval and subsequent implementation of loan-based development projects, including the IFAD-supported ones.	Substantial	Moderate
Mitigations: Mitigations: During design, the GoK has repeated its full commitment to RK-FINFA, including to its relatively high financing share of the project costs. The Government sees RK-FINFA as an integral part of both the short-term COVID-19 recovery efforts in rural areas and as a long-term instrument to channel increased volumes of finance from FIs to agricultural and rural activities. In also sees the GFF, established with RK-FINFA support, as one of the entry points for PFIs to finance and for farmers to engage in climate smart production activities. For the guarantee operations, the initial GoK funding would come from the existing PROFIT reflows, and the framework for the future pipeline of state budget funds for GoK contributions has already been agreed on.		
Governance	***Substantial***	***Moderate***
Risk: Risk(s): Governance and transparency issues persist, as shown in 2019 Corruption Perceptions Index for Kenya, resulting in high Governance Risk and corruption-related risk rating. Lengthy Government processes to establish Project Management Units and conduct procurement have delayed start-up of projects. Despite improved systems, problems in effective monitoring and reporting by GoK persist.	Substantial	Moderate
Mitigations: Mitigations: For RK-FINFA, the main responsibility for almost all the components has been contracted to intermediaries, with tested implementation guidelines and methods, supported by systematic development of eligibility rules and procedures for RK-FINFA project activities. The intermediaries are also responsible for largest part of small scale procurements to avoid obstacles potentially emerging from GoK procurement and management processes.		
Macroeconomic	***Substantial***	***Moderate***

Risk: Risk(s): Over the past 10 years, Kenya economy has grown rapidly. The average GDP growth in 2010 – 2019 was 5.85 per cent, supported especially by a friendly business climate, strong public infrastructure spending and regional trade. However, maintaining the achieved economic growth levels during RK-FINFA period will be a challenge. The public debt has rapidly increased and currently surpasses the standard risk levels. Due to COVID-19 and environmental shocks, the economy contracted by 1.0 per cent in 2020. Recovery expected to take longer than initially assumed, affecting practically the whole RK-FINFA period.	Substantial	Moderate
Mitigations: Mitigations: The GoK economic measures for recovery include tax reliefs, cash-transfers, suspension of loan default penalties, and bank debt restructuring. RK-FINFA contributes to the GoK efforts to implement counter-cyclical, pro-growth measures especially for the rural and agriculture sector. The longer-term impact of RK-FINFA support through R-CGS and GFF on growth and rural climate smart diversification can be significant, especially if other external financiers can be attracted to support these key RF-FINFA key investment instruments.		
Fragility and Security	***Moderate***	***Moderate***
Risk: Risk(s): past trends indicate that Kenya is vulnerable to electoral violence and political and ethnic rivalry, as has been experienced in the aftermath of the 2007 elections and to a much lesser extent in 2013 and 2017. It is possible that the elections scheduled in 2022 could result in violence, given the current heightened political tensions in the country. Other factors contributing to the country's fragility include regular banditry and ethnic clashes in some ASAL counties, and terrorist attacks particularly in northern border areas.	Moderate	Moderate
Mitigations: Mitigations: Issues of electoral and terrorism-related violence have been addressed through: (i) the 2010 Constitution which established a two-tier government at national and county levels, (ii) continuous sensitisation of the population in conflict prone counties to the need to cooperate with the authorities and to participate in the prevention of attacks; (iii) heightened border and internal security against terrorism; and (v) stronger enacted laws that give more powers and autonomy to the anti-corruption agency. While taking precautions for Kenya's security issues, RK-FINFA will avoid focusing its activities in areas where there are high levels of insecurity due to tribal clashes and terrorism.		
Sector Strategies and Policies	**Substantial**	**Moderate**
Policy alignment	***Substantial***	***Moderate***
Risk: Risk(s): Kenya's agricultural and financial sector policies are generally well aligned with IFAD's core policies. However, while a full police alignment between GoK and IFAD can be agreed on, the Government has adopted a more cautious approach in negotiating external debt. This has often resulted in long delays in signing of financing agreements with international financiers, which adversely affects the co-operation between GoK and international financiers, including IFAD.	Substantial	Moderate
Mitigations: Mitigations: RK-FINFA fully follows the key GoK policies on rural transformation and financial sector development. It is also seen as a part of the GoK recovery programme. The financial arrangements for the projects are arranged in a manner (large private sector leverage, the use of PROFIT reflows) that supports a smoother co-operation with Government that has been the case in some earlier IFAD-supported projects.		
Policy Development and Implementation	***Substantial***	***Moderate***

Risk: Risk(s): As indicated above, the policy framework in relatively well developed and supportive for agricultural and inclusive financial sector development in Kenya. In reality, the implementation of many relevant policies suffers from lack of resources and capacities in the GoK structures to develop action plans and in practice implement these policies to diversify and modernize the rural sector.	Substantial	Moderate
Mitigations: Mitigations: The key RK-FINFA investment components, R-CGF and GLL, and the related capacity building support directly support the implementation of key rural policies of the GoK. Importantly, potentially valuable support to policy development and implementation will be provided through Sub-component 3.1, which is solely geared to policy support in the observed gaps in the policy framework for the RK-FINFA support operations.		
Environment and Climate Context	**Substantial**	**Moderate**
Project vulnerability to environmental conditions	***Substantial***	***Moderate***
Risk: Risk(s): Given that end line investments are targeted at smallholders and rural enterprises, land degradation, water availability etc. may adversely affect these investments.	Substantial	Moderate
Mitigations: Mitigations: Environment and Social Management Systems (ESMS) will be established or strengthened in the PFIs. Capacity building of the beneficiaries and advisory services of the PFIs will inform the selection of environmentally friendly technologies and resources provided for these investments. The Environment and Social and Social management Framework (ESMF) will articulate measures to manage risks.		
Project vulnerability to climate change impacts	***Substantial***	***Moderate***
Risk: Risk(s): Climate shocks such as droughts and floods as well as incidence of pests and diseases will impact the end line investments, particularly those in the agricultural sector, by the smallholders and micro-enterprises. Climate change impacts can also affect loan repayments and thus the portfolio of the PFIs. The marginalization of women and youth beneficiaries, and persons with disabilities, who are more vulnerable to climate change because they face discrimination and inequalities in accessing land and water, markets, technologies, and credit.	Substantial	Moderate
Mitigations: Mitigations: Climate change risk management will be incorporated in the ESMS of the PFIs. Training and advisory services will be provided for the target beneficiaries to enhance their resilience and financial resources provided for green investments. The products under the green financing will promote climate resilience. RK-FINFA targeting approach is that women comprise 50% of beneficiaries, youth comprise 30% and a minimum of 5% of beneficiaries will be from vulnerable groups (marginalized groups including persons with disabilities and persons with HIV).		
Project Scope	**Moderate**	**Low**
Project Relevance	***Moderate***	***Low***

Risk: Risk(s): The relevance risk for the designed project instruments includes: (i) targeted potential PFIs will not agree with the proposed RK-FINFA guarantee scheme terms and conditions, (ii) the PFIs will continue business as usual regardless the guarantees provided, (iii) the TSIS service providers have limited skills to offer meaningful support to the PFIs and MSMEs and smallholders, and (iv) PFIs, MSMEs and rural households have less than anticipated demand for the green investment products.	Moderate	Low
Mitigations: Mitigations: The project instruments of RK-FINFA have been assessed as highly relevant for Kenya, through comprehensive stakeholder consultations. The mitigations include: (i) the rural credit guarantee scheme terms and conditions have been discussed and vetted with potential PFIs; seven banks have already signed the overall guarantee framework, (ii) the eligibility criteria for investments under guarantee protection, as well as the respective monitoring system, have been detailed, (iii) the TSIS service providers will be selected from private markets and the identification is done jointly with PFIs, (iv) demand for green investment products has been confirmed during the project design mission and through a background study, and furthermore, during the first two project years while building green investment pipeline the PFIs are allowed to utilize 50% of GFF resources to normal rural and agricultural investment targets.		
Technical Soundness	***Moderate***	***Low***
Risk: The proposed project structure is based on experiences and lessons learned from similar projects in Kenya and the ESA region. Based on experiences from these projects, key inherent risks include: (i) processes and approvals of RK-FINFA investment instruments are delayed, which results in loss of momentum by PFIs, (ii) the conditions provided to the PFIs are not attractive and results in loss of momentum by PFIs, (iii) reluctance by smallholders and agribusiness entrepreneurs to borrow through the supported channels, (iv) non-repayment risk in the lending provided to smallholders and agribusinesses, and (v) elite capture of project resources.	Moderate	Low
Mitigations: Key mitigations include: (i) RK-FINFA instruments and implementation mechanism built on the institutional capacity developed during PROFIT, which together with intensive IFAD start up support will minimize delays, (ii) seven financial institutions have agreed to the conditions provided by the guarantee scheme and its soundness was vetted during the design mission consultations, (iii) demand mapping has been conducted by the Financial Sector Deepening Kenya, WB, and by the RK-FINFA design mission, and demand for lending through the supported channels has been confirmed, (iv) the TSIS will ensure that all IFAD resources will target productive investments through sustainable and suitable lending products, which will reduce NPLs; the grass root PFIs making loans to end-beneficiaries carry the full GFF non-repayment risk; the guarantee scheme non-repayment risk is expected to reduce the guarantee pool up to 2% annually, and (v) the project will provide technical services to the participating FIs to enable them to develop : financial products suitable for RK-FINFA target groups in the agriculture value chains and to monitor the investments, and provide BDS and financial literacy services to RK-FINFA target groups to ensure they have sufficient capacity to access the developed financial services.		
Institutional Capacity for Implementation and Sustainability	**Substantial**	**Moderate**
Implementation Arrangements	***High***	***Moderate***

Risk: Risk(s): IFAD-supported projects in Kenya have suffered from less than optimal GoK performance in project implementation. Due to the Government's debt situation and decreased fiscal space, GoK continues to cut back on spending, often putting ceilings on AWPBs of projects and potentially further lowering the implementation capacities in government institutions.	High	Moderate
Mitigations: Mitigations: The whole RK-FINFA implementation approach is based on engagement of intermediaries in the implementation of key investment components. These include an operational CGF unit in NT, private financial institutions as well as consultancy companies and experienced local and international NGOs. With ring-fenced financing, these arrangements aim to significantly improve the changes of successful and cost-efficient implementation of RK-FINFA.		
Monitoring and Evaluation Arrangements	***Moderate***	***Moderate***
Risk: Risk(s): IFAD experience has shown that most FIs are weakly motivated to invest time or money to monitor the social aspects of project implementation progress, outputs, and outcomes. The lack of commitment to monitoring by key implementing partners could risk the appropriate measurement of the project's performance and its successes or failures.	Moderate	Moderate
Mitigations: Mitigations: Effective monitoring and accurate reporting will be critical in the R-CGS and GFF schemes, under which the issuing of the client loans is carried out by the selected PFIs. The improvement of the MIS systems of the PFIs is a core target function of Component 1 technical support activities. Most of the required performance reporting data will be automatically available from the IT-based accounting/management information systems of the CBK or SASRA-regulated PFIs. This data will be electronically submitted by the PFIs to the NT and GFF Host, which will aggregate it to be able to periodically present the whole scheme level data. The estimation of the development impact of the R-CGS and GFF interventions on supported projects, including the smallholder households, will be surveyed by the RK-FINFA through specific, sample-based baseline studies and then through repeat studies after the supported projects/investments are fully implemented.		
Project Financial Management	**Substantial**	**Moderate**
Project Organization and Staffing	***Moderate***	***Moderate***
Risk: The structure as envisaged in the PDR is deemed sufficient for the level of project activities. The financial controller and accountant for the project have been hired. The project has sufficient financial management staff with the requisite skills to meet the financial management needs of the project. However, the staff have not undertaken the required IFAD e-learning on financial management to further enhance their understanding of the IFAD requirements.	Moderate	Moderate
Mitigations: The project leadership should ensure the finance team undergo the IFAD e-learning on financial management and get certified.		
Project Budgeting	***Substantial***	***Substantial***

Risk: Preparation of the workshop takes on a bottom-up approach, with the counties providing estimates of their activities. At the project level, the consolidation and rationalization is undertaken by the technical specialists with the M&E taking overall lead of the process. The finance team provides support for the budget estimates. AWPB is in line with the project description (categories and components) in the PDR. Clear linkage between the categories and components, with appropriate references in the procurement plans to the component and sub-component. There is minimal risk that the budgeted expenditures are unrealistic. However, the absorption of the 2022/23 AWPB was too low (0.5%) as of 30 June 2023.	Substantial	Substantial
Mitigations: With the full staff complement and most of the start-up activities completed, implementation of project activities is likely to be scaled-up, thus improving budget absorption. The programme will closely monitor the implementation of activities to ensure they are carried out as planned and potential disruptions due to set up delays are minimized.		
Project Funds Flow/Disbursement Arrangements	***Substantial***	***Substantial***
Risk: The project has IFAD, GoK, and beneficiaries as the financiers. Treasury arrangements for IFAD and GoK are straightforward (DA and operational account are with the country's central bank). The project has been preparing cash forecasts as part of the IFRs. However, there is a risk of delayed implementation since the project had a delayed start due to staff recruitment process.	Substantial	Substantial
Mitigations: Ensure continued preparation and submission of quarterly IFRs so as to guarantee sufficient cashflows for each subsequent quarter. Recognition of private sector and beneficiary contributions will be essential to ensure the project meets its objectives. Prepare separate interim financial reports with separate columns for each financing instrument to facilitate clear budget performance analysis.		
Project Internal Controls	***Substantial***	***Substantial***
Risk: Internal controls are well documented in the initial project PIM. There is sufficient segregation of duties as evidenced by the transactions reviewed during the mission. Project assets are recorded in the fixed assets register and clearly mapped to specific individuals in the project. In order to enhance segregation of duties in the accounting department between initiation, review and approval of the accounting transactions, the project should ensure that the include other management position in the approval process to ensure all adequate segregation of duties is enforced. Project assets are recorded in the fixed assets register and are properly tagged. The internal audit departments had not conducted audits since the project has recently started. There is a risk that internal controls will not be adequately monitored due to lack of internal audit reviews.	Substantial	Substantial
Mitigations: Internal controls are process-oriented, and must be monitored for successful implementation on a day-to-day basis. Quarterly internal audit reports should be produced by the internal auditors in the state department for national treasury.		
Project Accounting and Financial Reporting	***Moderate***	***Moderate***

Risk: The project has been using Excel to record financial transactions since inception. However, an accounting software (SUN System) has been installed and transition to the system is scheduled for 1 March 2023. The system has been customised to generate IFAD financial reports as follows: 1. Income and expenditure by component and sub-component 2. Income and expenditure by category 3. Analysis by funding source 4. Budget versus actual analysis 5. Fixed assets register The system is, however, not multi-currency and therefore conversion into the reporting currency will need to be done outside the software. Secondly, the project interim financial reports are not done with separate columns for each financing instrument to enhance monitoring of the project during supervision and disbursements.	Moderate	Moderate
Mitigations: Ensure to produce the financial reports with separate columns for each financing instrument.		
Project External Audit	***Moderate***	***Low***
Risk: The first project audit will be due for the year ending 30 June 2023. The audit report and management letter for the year ended 30 June 2023 were submitted on time and were assessed as 4 –Moderately satisfactory in ARTS. The audit was performed by Kenya's SAI (the OAG), and performed in accordance with ISSAIs.	Moderate	Low
Mitigations: N/A		
Project Procurement	**Moderate**	**Moderate**
Legal and Regulatory Framework	***Low***	***Low***
Risk: Risk(s): The key weaknesses of the Kenyan procurement system lie mainly at accountability and transparency of the processes. The corruption perception index score and existence of only one body with debarment authority are major shortcomings in the system. Standard bidding documents are in place for local shopping and NCB, but no bidding documents exist for ICB.	Low	Low
Mitigations: Mitigations: Procurement for two components in RK-FINFA will follow GoK procurement procedures in so far as they are consistent with IFAD guidelines. GoK bidding documents will be used except for ICB where IFAD bidding documents will be adopted. The project design defines the final implementing arrangements, which propose to include project procurement being carried out by third parties for Component 2 subject to a full due diligence being confirmed and a prior NO to implementing arrangements being submitted to IFAD. This arrangement would have a considerable impact on the risk assessment provided and would allow a lower overall risk rating		
Accountability and Transparency	***Moderate***	***Moderate***
Risk: Risk(s): The Country Corruption Perception Index score assigned by Transparency International is high at 31 (in a scale from 0 to 100). Country's Public Procurement Regulatory Authority is the sole authority for debarment. There exists a constitutional Ethics and Anti-Corruption Commission to handle corruption yet reported corruption cases are common.	Moderate	Moderate

Mitigations: Mitigations: RK-FINFA will adopt IFAD's accountability and transparency principles that aim to safeguard the integrity of project procurement and contract execution. The Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations shall apply to all RK-FINFA activities. Major parts of procurement will be carried out by co-investing implementation partners, which increase transparency and accountability. All IFAD self-certification forms will be adopted in their entirety.		
Capability in Public Procurement	***Substantial***	***Moderate***
Risk: Risk(s): The overall Government capacity of the NT proved to be less than optimal in the closed PROFIT programme, leading to overall slow procurement processes with major delays.	Substantial	Moderate
Mitigations: Mitigations: The project will hire a qualified procurement professional to handle all procurement activities in the PMU, while in cases where co-investing partners are delegated to carry out procurement activities, agreed methods and thresholds as well as the use of SPDs and IFAD's Handbook, will be detailed in the PIM. The two large investment instruments of RK-FINFA (R-CGF and GFF) do not involve procurement activities.		
Public Procurement Processes	***Moderate***	***Moderate***
Risk: Risk(s): Prior experience with GoK Implementing Agency shows long and cumbersome internal processes causing major delays in project implementation.	Moderate	Moderate
Mitigations: Mitigations: Processes will be led both by the Borrower through the lead agency, but risk will also be diversified by outsourcing the majority of procurement to relevant partners as assessed through a robust due diligence. All activities are advertised on a dedicated project website and the project will adopt IFAD's Contract Monitoring Tool (ICP) where all contracts will be posted.		
Environment, Social and Climate Impact	**Moderate**	**Low**
Biodiversity Conservation	***Moderate***	***Low***
Risk: Risk(s): Some of the project end beneficiary investments related to improving agricultural productivity e.g. increased use of agrochemicals, expansion of areas, water abstraction etc. may cause adverse effects on ecosystems services and biodiversity in their locations.	Moderate	Low
Mitigations: Mitigations: The criteria for accessing project financing includes environmental management considerations and the green finance will be targeted at activities that improve environmental and natural resources management. The end line investments made by the beneficiaries will be monitored by the PFIs through their ESMS.		
Resource Efficiency and Pollution Prevention	***Moderate***	***Low***
Risk: Risk(s): Some end line investments may result in sub-optimal use of agrochemicals, which may cause environmental pollution. Investments in post-harvest and processing facilities may also result in increased waste production and energy demands that would be met using diesel generators.	Moderate	Low

Mitigations: Mitigations: Efficient resource use will be ensured through awareness raising, training, and monitoring of investment activities. Green investments will be promoted including renewable energy products and improved waste management at post-harvest facilities.		
Cultural Heritage	***Substantial***	***Moderate***
Risk: Risk(s): Kenya has social cultural norms that perpetuate the unequal status of women through inter-locking factors, affecting poverty, discriminatory treatment in the family including inheritance, and public life and decision-making. Men and women in Kenya have equal ownership rights to property, however, customary practices vary. For example, women's access to land ownership is at only about 5 per cent.	Substantial	Moderate
Mitigations: Mitigations: RK-FINFA will use the GALS methodology to facilitate women and men at household level to address structural power imbalances affecting women, and influence change of attitudes towards more equitable access and control of incomes, increase women participation in decision making and balanced workloads for households participating in the project. The TSIS capacity building activities support this process.		
Indigenous People	***Moderate***	***Low***
Risk: Risk(s): Kenya's population is a composite of over 40 ethnic communities. While there are some specific issues that are pertinent to these communities, many of the issues are especially relevant to marginalized populations. However, the common denominator among Kenya's excluded communities is poor access to resources and opportunities, insecurity of tenure and alienation from the state administration. Their weak voice in governance restricts their ability to address most of these issues and increases their vulnerability in the face of environmental, economic, and political problems.	Moderate	Low
Mitigations: Mitigations: The RK-FINFA gender, youth and social inclusion strategies consider all vulnerable groups and communities and will inform project strategies to ensure the inclusion of all in project interventions.		
Labour and Working Conditions	***Substantial***	***Moderate***
Risk: Risk(s): Women in Kenya generally fare worse than their male counterparts on most social and economic indicators, including wage equality, political participation, and literacy, although the situation is improving. Women are likely to work longer hours with less pay and mostly in agriculture and the informal sector. In addition, women bear the burden of child rearing and household and community chores due to unequitable gender roles. The majority of Kenyan women (over 70 per cent) are engaged in the agriculture sector but often on unpaid family basis. Women provide more than 80 per cent of the labour in food production and 50 per cent in cash crop production. Yet they hold only about 1 per cent of registered land titles in Kenya, and around 5 to 6 per cent of registered titles are held in joint names. Without title deeds, women are often unable to access cooperative membership, markets, and credit.	Substantial	Moderate

Mitigations: Mitigations: RK-FINFA has a Gender, Youth and Social Inclusion Strategy and it will monitor the access to and impact of financial products and services on target groups, together with key gender equality outcomes. These will include increased access to finance and services with tailored products for women, with a special focus on women-owned micro-businesses. At the same time, the project will contribute to more equitable workloads between household members; and participation of women in decision-making and leadership roles in project activities is encouraged. A large percentage of the training on business skills will target young women and men. Young women and men will be selected and trained as business coaches (ToTs) from the Counties and Wards. Business skills training will be delivered to the various groups through these ToTs.		
Community Health and Safety	***Low***	***Low***
Risk: Risk(s): Kenya's community health system faces resource constraints and inconsistencies around quality of services. This situation has increased with COVID-19, adversely affecting health outcomes. Communities experience insufficient infrastructure (e.g., health delivery structures). In addition, there are planning and implementation gaps common due to challenges of devolution, inadequate capacity, and inadequate sustained community engagement.	Low	Low
Mitigations: Mitigations: The COVID-19 experience has seen more efforts geared towards enhancement of community health and safety especially on Water, Sanitation and Hygiene. RK-FINFA and its implementing partners will seek to ensure that an appropriate COVID-19 response will be integrated through the project.		
Physical and Economic Resettlement	***Low***	***Low***
Risk: Risk(s): The project interventions will not result in physical or economic resettlement of project beneficiaries.	Low	Low
Mitigations: Mitigations: No mitigations are envisaged in this area.		
Greenhouse Gas Emissions	***Low***	***Low***
Risk: Risk(s): The project may cause result in GHG emissions albeit minimal from synthetic fertilizer use, dairy investments, and land clearing.	Low	Low
Mitigations: Mitigations: Capacity building and the advisory services can promote low emission technologies, agricultural practices, and disincentives for land clearing.		
Vulnerability of target populations and ecosystems to climate variability and hazards	***Low***	***Low***
Risk: Risk(s): The project is not expected to increase vulnerability of target beneficiaries and ecosystems in the geographic targeted areas.	Low	Low

Mitigations: Mitigations: The project is expected to enhance resilience of the target beneficiaries and the ecosystems particularly through the green investments.		
Stakeholders	**Substantial**	**Moderate**
Stakeholder Engagement/Coordination	***Substantial***	***Moderate***
Risk: Risk(s): Elite capture of the project resources due to skewed information availability on project services. PFIs operating in different target areas may apply different approaches for the project activities based on their own client selection policies.	Substantial	Moderate
Mitigations: Mitigations: Targeting approach will include criteria to ensure wider reach of the project activities for the intended beneficiaries. Clear rules of engagement and transparent monitoring and reporting systems for the PFIs including joint review and planning sessions with the PMU will provide fora for coordination that engenders adaptive project management.		
Stakeholder Grievances	***Moderate***	***Low***
Risk: Risk(s): Grievances registered by target beneficiaries and stakeholders may not be effectively addressed and corrective measures taken by the project due to lack of information or misinformation about the systems in place. Beneficiary grievance might escalate through litigation.	Moderate	Low
Mitigations: Mitigations: The project will utilise existing grievance redress mechanisms (GRM) and have a dedicated officer in the PMU that will be responsible to ensure recorded grievances are addressed. Stakeholders will be informed about the GRM during project sensitization sessions.		