

# AFRICAN DEVELOPMENT BANK



## PROGRAMME: African Emergency Food Production Facility – Kenya (AEFPF-K)

**COUNTRY:** Republic of Kenya

### STREAMLINED APPRAISAL REPORT

July 2022

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# **AFRICAN DEVELOPMENT BANK**



## **REPUBLIC OF KENYA**

### **AFRICAN EMERGENCY FOOD PRODUCTION FACILITY (AEFPF-K)**

## **APPRAISAL REPORT**

**RDGE/ECGF**

July 2022

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## **CURRENCY EQUIVALENTS**

*(As of 31 May 2022)*

1 UA	=	KES 157.562
1 UA	=	US\$ 1.350
1 UA	=	EUR 1.260

## **FISCAL YEAR**

July 1 – June 30

## **WEIGHTS AND MEASURES**

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

## ACRONYMS AND ABBREVIATION

ADB	African Development Bank
AEFPF	African Emergency Food Production Facility
AFFM	African Fertilizer Financing Mechanism
ASTGS	Agriculture Sector Transformation and Growth Strategy
ATO	Agriculture Transformation Office
AfCFTA	African Continental Free Trade Area
CBK	Central Bank of Kenya
CFRA	Country Fiduciary Risk Assessment
COVID	Corona Virus Disease
DP	Development Partners
DPG	Development Partners Group
DPO	Development Policy Operation
GDP	Gross Domestic Product
GOK	Government of Kenya
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification
JICA	Japan International Cooperation Agency
KES	Kenyan Shillings
MIS	Management Information System
MoALFC	Ministry of Agriculture, Livestock, Fisheries and Cooperatives
MTP	Medium Term Plan
NT	National Treasury
PBOs	Programme-Based Operations
PIM	Public Investment Management
RDGE	East Africa Regional Development & Business Delivery Office
UA	Unit of Account
USD	United States Dollar
UNCOMTRADE	United Nations Commodity Trade Statistics Database

### **Timeframe - Main Milestones**

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Programme Appraisal	June 2022
Programme Approval	July 2022
Loan Effectiveness	September 2022
Disbursement Closing Date	June 2024
Completion	December 2024

## PROGRAMME INFORMATION

<b>INSTRUMENT</b>	AFRICAN EMERGENCY FOOD PRODUCTION FACILITY – CRISIS RESPONSE BUDGET SUPPORT
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<b>PBO DESIGN TYPE</b>	SINGLE PROJECT OPERATION
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## LOAN INFORMATION

### Client's information

<b>BORROWER:</b>	REPUBLIC OF KENYA
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<b>EXECUTING AGENCY:</b>	MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND COOPERATIVES
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### Financing plan for 2022/23

Source	Amount (2022/23)	Instrument
ADB Loan	EUR 63.0 million	Loan
<b>TOTAL FINANCING</b>	<b>EUR 63.0 million</b>	

### ADB key financing information

Loan Currency	Euro
Loan Type	Fully Flexible Loan
Tenor	25 years (inclusive of Grace Period)
Grace period	8 years
Repayments	34 Consecutive semi-annual payments after grace period
Interest Rate	Base Rate +Funding Cost Margin+ Lending Margin + Maturity Premium This Interest payable shall in no event be less than zero percent (0%) per annum
Base Rate	Floating Base Rate (6-month adjusted Secured Overnight Financing Rate (SOFR) <sup>1</sup> reset each 1 <sup>st</sup> February. and 1 <sup>st</sup> August). Daily SOFR is floored to zero. A free option to fix the Base Rate (Daily SOFR) is available
Funding Cost Margin	The Bank funding cost margin as determined each 1 <sup>st</sup> January and 1 <sup>st</sup> July and applied to the Base Rate each 1 <sup>st</sup> February and 1 <sup>st</sup> August for USD, EUR and JPY and each 1 <sup>st</sup> February 1 <sup>st</sup> May 1 <sup>st</sup> august and 1 <sup>st</sup> November for ZAR.
Maturity Premium	20 basis points (0.2%)
Front-end fees	25% of the loan amount payable no later than sixty (60) days after the Date of Entry into Force, or at first disbursement whichever is the earlier. <sup>2</sup>
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on Payment dates
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fix rate to floating or refix it on part or full disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both cap and floor on the Base Rate to be applied on part or full disbursed amount Transaction fees are payable

<sup>1</sup> 6-month adjusted SOFR = Daily SOFR compounded in arrears with 15 business days lookback without shift

<sup>2</sup> GoK will have the option to pay the Front-end Fee: (i) either from its own resources, or (ii) by deducting its amount from the loan proceeds at first disbursement.

# **REPORT AND RECOMMENDATION OF THE MANAGEMENT TO THE BOARD OF DIRECTORS OF THE AFRICAN DEVELOPMENT BANK ON A PROPOSED LOAN TO THE REPUBLIC OF KENYA TO FINANCE THE AFRICAN EMERGENCY FOOD PRODUCTION FACILITY**

## **I. INTRODUCTION: THE PROPOSAL**

**1.1. Management submits the following proposal and recommendation for an ADB Loan of Sixty-Three Million Euros (EUR 63.0 million) to the Republic of Kenya to finance the African Emergency Food Production Facility (AEFPF).** The project was appraised on 13-17 June 2022 following a government request for support dated 9<sup>th</sup> June 2022 and will be implemented from 31<sup>st</sup> July 2022 to 31<sup>st</sup> July 2024. The program will contribute to strengthening food security and resilience of the Kenyan economy, with particular emphasis on increasing national agricultural productivity, mitigating food security risks, and enhancing private sector and fiscal resilience.

## **II. CONTEXT**

### **2.1 Economic, Agricultural and Social Context**

**2.1.1 Before the COVID-19 crisis, Kenya had steadily reduced poverty.** Due to pro-poor growth policies over the decade before the COVID-19 pandemic, the proportion of Kenyans living below the US\$ 1.90 a day poverty line (2011 purchasing power parity), declined from 45.2% in 2009 to an estimated 34.4% in 2019. Kenya has made major gains in human development as well. In 2020, the country achieved a score of 0.547 in Human Capital Index [HCI], the highest score in mainland sub-Saharan Africa. Despite these gains, Kenya's progress towards achieving the sustainable development goals (SDGs) suffered a setback due to the COVID-19 crisis as the estimated poverty rate increased to 35.7% in 2020 from 34.4% in 2019. This was also aggravated by the desert locust invasion and droughts in North- Eastern Kenya, which have reduced crop and livestock yields.

**2.1.2 Overview of the Agriculture Sector.** Agriculture is the bedrock of Kenya's economic growth and is central in its development strategies as described in the Kenya Vision 2030, the third Medium Term Plan (MTP III, 2018-2022) and the Big Four priority agenda for 2017-2022. To transform Kenya's agricultural sector and make it a regional powerhouse, the Government of Kenya (GoK) has formulated the Agricultural Sector Transformation and Growth Strategy (ASTGS). The Strategy is based on the belief that food security requires a vibrant, commercial, and modern agricultural sector that supports Kenya's economic development sustainably and its commitments to regional and global growth. The ASTGS has three anchors and nine flagships to drive Kenya's 10-year transformation (2019-2029). The 3 anchors include (i) Increase small-scale farmer, pastoralist and fisherfolk incomes; (ii) Increase agricultural output and value addition; and (iii) Boost household food resilience. Most of the proposed AEFPF activities will be supported by Anchor 1.

**2.1.3** The agriculture sector remains the backbone of the Kenyan economy, employing 70% of the rural population and accounting for about 65% of export earnings, although its share in the GDP has declined from nearly 40% in the 1970s to 25% in 2019. Crop production comprising industrial crops, food crops and horticulture accounts for 82% of agricultural GDP and 94% of export earnings from agriculture. Kenya's agriculture is predominantly small-scale and rain-fed. About 80% of the people working in agriculture are small scale farmers; they account for 75% of agricultural output and 70% of marketed production. Production is carried out on farms averaging 0.2 – 3 ha, for subsistence and commercial purposes. However, adoption of improved inputs such as hybrid seed, concentrate feeds, fertiliser, safe use of agrochemicals and machinery by small-scale farmers is relatively low compared to industrial

farming. Extension services are provided by a limited number of public extension agents focusing mostly on production and with limited linkages with research. About 80% of rural households sell some of their agricultural produce, but the level of commercialisation ranges from less than 10% of farm output in relatively low-potential counties to 80% in high potential counties.

**2.1.4 Current Food Crisis Resulting from the Russia-Ukraine War and the Climate and Drought Impacts.** In February 2022, the Kenya Food Security Steering Group (KFSSG) reported that there are around 3.1 million food-insecure people in pastoral and marginal agricultural areas, a 48 percent increase since August 2021. Given the important role that wheat and maize products play in the diets of Kenyan people, the interruption in the wheat trade from these countries and high prices have raised serious concerns about rising levels of food insecurity, poverty, and instability. According to studies by the International Food Policy Research Institute (IFPRI), the sharp international price increases have resulted in higher prices in Kenya as well, particularly for fertilizer, thereby reducing GDP growth and increasing poverty rates and putting an estimated 1.4 million additional people below the poverty line.

**2.1.5 Inflation in Kenya hit 7.1% (with food inflation at 13.8%) as of May 2022,** mainly driven by a combination of high world commodity prices and a depreciating exchange rate (Central Bank of Kenya). Most of the maize, rice, and wheat in Kenya's domestic market – including maize and wheat flours – are produced locally, while about 45% of edible oils are imported. Depending on the year, about 30%-50% of wheat grains processed in Kenya come from Russia and Ukraine, and imported edible oils come mostly from Indonesia and Malaysia (UN COMTRADE database, 2022). While almost all chemical fertilizers are imported in Kenya, a relatively small portion come from Russia – about 9.3% of the total value of imported fertilizers in 2021 (UN COMTRADE).

**2.1.6 Rising prices negatively affect Kenya's economy and poverty.** Almost all the commodities affected by recent global crises are consumed directly by households and used for other sectors' production as intermediate inputs. Studies from IFPRI indicate that Kenya's gross domestic product (GDP) could be 0.8% lower in 2022 compared to a situation without the global commodity price crises. More than 50% of the GDP drop is from agriculture, driven primarily by higher fertilizer prices and the associated negative productivity effect from farmers' reduced use. Household consumption is also negatively affected by rising world prices – particularly higher fuel prices that raise market prices for many consumer goods and services. The decline in consumption is larger for households towards the lower end of the income distribution, leading to increased inequality and greater poverty.

**2.1.7 Climate and Drought Impacts on Food Security in Kenya.** The food security situation in Kenya is not only impacted by the Russia-Ukraine war, but by the prevailing climatic and drought situation in the horn of Africa region. According to reports from the Famine Early Warning System Network (FEWSNet), the March-to-May long rains season was below average. Most arid and semi-arid areas of Kenya received only 60-75 percent of normal rainfall. The increased frequency and intensity of droughts in North and North-Eastern Kenya often results in huge livestock losses and exacerbate inter-communal conflicts as pastoralist struggle over dwindling forage and water resources. Staple food prices remain atypically high, driven by below-average production across the country. High food prices are reducing household purchasing power and limiting household food access. The price of maize flour is currently more than double the normal prices at this time of year.



### **III. RATIONALE AND KEY DESIGN ELEMENTS**

#### **3.1 Rationale**

3.1.1 Considering the emergency nature of the food crisis, a Crisis Response Budget Support (CRBS) instrument was used as a fast-tracked disbursement method. This decision was informed by the successful COVID response where the Bank used the CRF (COVID Crisis Response Facility) and the associated Feed Africa Response to COVID (FAREC) facilities that were able to disburse funds to the Regional Member Countries (RMCs) very quickly. The AEFPPF will also use this approach to rapidly deliver critical inputs (fertilizers, seeds, and advisory services) to ensure that the support provided benefits farmers in time for the 2022 short rains (October-December) and 2022/2023 crop production seasons.

3.1.2 The proposed project's design will benefit from lessons learnt through implementation of similar on-going Bank projects in Kenya and experience gained elsewhere. The key lessons learned from these projects and reflected in this project's design include: Focussing on fewer but concise components is critical to ensure delivery of results; There is need for a robust results-based monitoring and evaluation system; Need for efficient contract management cannot be over-emphasized; and since available resources can rarely meet all the envisaged needs, a narrower target criteria and embracing the poor in particular can help with better focusing of the assistance. The theory of change process is presented in the Technical Annex.

3.1.3 To cushion consumers and producers from the impacts of rising global prices, Kenya's government has implemented several fiscal measures, including fertilizer and fuel subsidies. As of April 2022, the government had budgeted a total of KSh 5.7 billion (\$49.6 million) to subsidize 114,000 metric tons of fertilizer by 40% for farmers. As of June 2022, the Government had reached 33,465 farmers in 27 counties and utilized KSh 2.23 billion under this program. The AEFPPF will quickly scale up and scale out this initiative while providing improvements to more target beneficiaries more effectively and efficiently.

3.1.4 In the short run, fertilizer and fuel subsidies can partially blunt the effects of global shocks on Kenya's producers and consumers. Given that global fertilizer prices will likely remain high, due to fiscal constraints more targeted fertilizer subsidy schemes may be necessary before the next planting season. Maintaining the timely availability of fertilizers is also important. However, going forward Kenya will need to expand its domestic fertilizer production to reduce its dependence on imports. The government has pursued this strategy, by allowing the private sector to import fertilizers and blend in the country for specific crops. The government should also consider encouraging the private sector investments to establish fully-fledged fertilizer production in Kenya and/or the broader East African region.

#### **3.2 Collaboration and Coordination with Other Development Partners:**

The Bank consulted the World Bank which is contributing USD 35 million on this emergency response in 15 counties in Kenya, through an existing project, the Kenya Agricultural Productivity and Agribusiness Project. The Bank has also held discussions with the IFAD-funded Kenya Cereals Enhancement Programme – ASALs Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL) to collaborate and utilize their e-voucher models which are working very well. The Bank is also in discussions with JICA for additional resources for the AEFPPF. The Bank together with the Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MoALFC) presented the AEFPPF initiative to the Agriculture and Rural Development Partners Group (ARDPG) to inform them of the initiative, gather inputs and explore collaboration.

### 3.3 Meeting the Eligibility Criteria

**Kenya fulfils the five conditions of eligibility for General Budget Support in line with the Bank Group Policy on Programme Based Operations:** The Government remains committed to poverty reduction and inclusive growth. The country enjoys Macroeconomic stability which is satisfactory despite the challenges of COVID-19. The country continues to maintain political stability and has made considerable progress in recent years to maintain its democratic credentials. The updated CFRA shows that overall fiduciary risk for the Government is substantial but with a general positive trajectory in performance, which allows the Bank to maintain an approach based primarily on the use of country systems and the framework for donor coordination is adequate.

### 3.4 Application of Good Practice Principles on Conditionality

Kenya is eligible to borrow from the ADB non-concessional window. The operation supports the Government's plans to mobilize resources to finance its development needs within the framework of the Medium-Term Plan (2018–22), the Big Four Drivers and Enablers, and the Agricultural Sector Transformation and Growth Strategy (ASTGS). The operation supports activities that will increase agricultural productivity and production, improve food security, create jobs, and build resilience to food shocks while boosting economic and social inclusion and promoting gender equality, women empowerment, and youth inclusion.

## IV – THE PROPOSED PROJECT

### 4.1 Project Goal and Purpose

The principal goal of the AEFPP is to increase agricultural productivity and production to improve food security in Kenya in the short term and to mitigate the impacts of the Russia-Ukraine war on food by supporting farmers and governments with the necessary resources.

### 4.2 Project Content

4.2.1 The main purpose of the AEFPP is to ensure that Kenyan farmers can access agricultural inputs cost effectively to ensure that current food challenges do not worsen over time and progressively lead to decline in food production. It therefore supports short-term interventions that are critical to sustaining food production resulting in some long-term effects.

#### **Component 1: Delivery of Certified Seeds, Fertilizers and Extension**

4.2.2 The objective of component 1 is to increase agricultural productivity and production by over two million metric tonnes (MT) of selected cereals and oil seeds over the next two years from 2022 to 2024 (the next 4 seasons). The increased production will cover some of the shortfall of these commodities because of the Russia-Ukraine war and allow for the restocking of national grain reserves. A key aspect on delivering these outcomes is extension which will focus on (i) capacity development of public and private extension service providers as well as lead farmers and farmer groups to maximise impact; (ii) promotion of demand-driven and iterative extension approaches tapping into local knowledge; and (iii) attention to climate, and gender- and youth-sensitive approaches for the household methodologies.

*Sub-component 1.1: Facilitating Fertilizer and Certified Seed Affordability.* The AEFPP will build on the Government's existing fertilizer subsidy programme to scale it up and out to reach at least 50,000 (40% women) more farmers in 37 counties covered by the National Value Chain Support Program (NVCSP). The project will finance implementation of the Government's fertilizer subsidy programme directly targeting farmers through electronic vouchers to subsidize the purchase of fertilizers and seeds from selected agro-dealers. Considering the

success of the on-going KCEP-CRAL and NVCSP programmes and the similarities in activities, the AEFPPF will collaborate with these projects and use their model for the technical input package (seeds and fertilizer) distribution and advisory services to the farmers to increase productivity and production.

*Sub-component 1.2: Use of the e-voucher system.* Delivery of agricultural inputs to farmers will be based on a best practice approach, by which smart subsidies are delivered and gradually transitioned to private sector players. The electronic voucher system used by the Government will be enhanced with features such as the Electronic Wallet for efficient delivery of agro-inputs and optimize the power of mobile telephony to achieve scale and provide nationwide access to mobile money. The e-farmer registry will also be improved and extended for more effective targeting of beneficiaries, building on existing and proven models such as those of the NVCSP and KCEP-CRAL e-voucher system. Stakeholder mapping of value chain actors including aggregators, commodity exchanges, fertilizer and seed companies, financial institutions, agro-processors, large NGOs/producer associations, and government input-distribution programs will be conducted for efficient implementation of the AEFPPF.

**Policy Actions Supported by AEFPPF Component 1.** (i) Farm inputs subsidy program operationalized and expanded to reach 50,000 (40% women) more farmers; (ii) Institutionalization of the E-voucher system in government and expansion to 37 counties.

### **Component 2: Financing Mechanisms for Fertilizer Availability and Affordability**

4.2.3 The expected outcome of this component is increased availability, affordability and use of quality fertilizers by farmers to improve productivity and production of the targeted crops. This outcome will be measured by the increase in quantity of fertilizers used by farmers and number of farmers receiving fertilizer through e-vouchers. The objective of this component is to leverage private sector financing to achieve the targeted volumes of fertilizer to farmers. This will build upon the success of the Bank's African Fertilizer Financing Mechanism (AFFM) to provide credit guarantees to importers, aggregators, and other large fertilizer users. Project interventions under this sub-component will include: (i) Establish the actual demand and supply of fertilizer; (ii) structure transactions that support affordable access to finance for fertilizer manufacturers and/or blenders to supply aggregators or distributors through letters of credit to purchase fertilizer and/or raw materials from their suppliers; and (iii) facilitate expansion of local production/manufacturing and blending capacity via linkages to participating financial institutions, which could provide capital for the purchase of raw material and machinery. The MoALFC will implement the Trade Guarantee Program in an amount of USD 10 million through the Agricultural Finance Corporation (AFC) and strengthen the AFC with Technical Assistance to conduct due diligence and ensure the quality and transparency of the program.

**Policy Actions Supported by AEFPPF Pillar 2:** (i) Use the credit trade guarantee support to reach the target of 40% fertilizer imports by local firms; and (ii) Enhance capacity of local fertilizer manufacturing and blending by 30%.

### **Component 3: Supporting Policy Reforms**

4.2.4 Interventions will focus on promoting policies and enhancing coordination to address the structural factors that prevent modern inputs from reaching farmers. Policy dialogue, commitments and actions, and reform mechanisms will aim to strengthen national institutions that oversee input and output markets and enhancing national food security.

**Policy Actions Supported by AEFPPF Pillar 3:** (i) Support the Strategic Food Reserve System (SRS) in particular the completion of the digital food balance sheet process; (ii) Support the

MoALFC monitoring and indicator system of the ASGTS; (iii) Finalize the gender in agriculture guidelines.

#### Component 4: Program Coordination and Management

This component will ensure the effective and efficient coordination of the program by MoALFC. It also includes the management of components at national and county levels to achieve the expected outcomes of the program, financial management, gender action plans, monitoring and evaluation, audits, and the effective Pest Management Plan (PMP) implementation.

#### 4.3 Financing Needs

Kenya's financing needs are estimated at KES 858.89 billion (USD 7.47 billion) for fiscal year 2022/23 (Table 4). Given the tight fiscal challenges in the context of the complicated global economic outlook, the Government will need the strong support of development partners (both bilateral and multilateral) to fill the financing gap. The net foreign financing, including financing from the Bank, the World Bank, IMF, and bilateral sources, is KES 280.7 billion (USD 2.4 billion) while the balance would be financed through domestic borrowing.

#### 4.4 Program Beneficiaries

The direct beneficiaries of the AEFPP will include 50,000 (40% women) small-scale farmers who will receive

certified seeds and fertilizers at affordable rates along with extension services. However, other secondary beneficiaries include various stakeholders along the production value chain for the selected crops, wheat, maize, rice, and soybean. These include aggregators, fertilizer and seed companies, financial institutions, agro-processors, and producer associations.

#### 4.5 Prior Actions, Tranche Release Conditions or Triggers

Some of the prior actions that will be submitted before Board approval are presented in table 4 below.

Table 4: Projected Financing Requirements and Sources			
		2021/22	2022/23
		KES (billion)	KES (billion)
A	Total revenue and grants	2,103.90	2,426.60
	<i>Of which: grants (excl. budget support)</i>	46.10	46.90
B	Total expenditure and net lending	3,033.60	3,289.00
	<i>Of which: interest payments</i>	560.30	644.00
	<i>Of which: capital expenditure</i>	620.10	620.10
C	<b>Overall balance (cash basis) (A - B)</b>	<b>-929.70</b>	<b>-862.40</b>
D	Accumulation of arrears	0.00	0.00
E	<b>Overall balance (commitment basis) (C - D)</b>	<b>-929.70</b>	<b>-862.40</b>
F	External financing (net – minus Bank)	272	269.31
G	Domestic financing (net)	646.1	581.7
H	ADB contribution (SBS PBO) <sup>3</sup>		7.88
I			
J	<b>Financing (F + G+H)</b>	918.1	858.89
K	<b>Financing gap (-E -J), financed by:</b>	-	-

Table 4: Prior actions and triggers

No.	Policy Measures	Required Evidence
1	Policy guidelines developed for implementation of input and service subsidy programmes, including institutionalization of the e-voucher system.	Letter from the Minister of Agriculture, Livestock, Fisheries and Cooperatives confirming development of the guidelines for implementation of input and service subsidy programmes, and a copy of the draft guidelines.
2	National Food Balance Sheet (FBSC) developed as the national accounting and statistical framework for comprehensive pattern of the country's food supply, utilization, and distribution system.	Letter from the Minister of Agriculture, Livestock, Fisheries and Cooperatives confirming development of the FBSC, and a copy of the FBSC document.
3	Establishment of the Food Security Monitoring Committee.	Letter from the Minister of Agriculture, Livestock, Fisheries and Cooperatives submitting the Draft National Food Reserve and Trading Corporation Bill confirming that the bill will be submitted to parliament

## 4.6 Policy Dialogue

Considering that this is a Crisis Response facility, there is limited scope for policy dialogue because of the crisis context. The program is supporting a short-term crisis response. However, there are a few key areas of policy dialogue during the implementation of the AEFPPF which will be supported by implementation of the program. These will include ongoing discussions on the Strategic Food Reserves, Input Availability and Affordability and Institutionalization and Expansion of the e-voucher System.

## 4.7 Impact on Gender, Poor, and Vulnerable Groups

**4.7.1 Gender:** The gendered roles and relations between men and women imply that they experience and are impacted differently by the food crisis. Women are responsible for household food provision and nearly 70% of women work in the agricultural sector and are the primary producers and processors of food. However, they lack access to land and inputs, which means that they achieve lower agricultural yields and experience greater income insecurity than men. Poor households (the majority being female headed) are facing the greatest impact as prices of basic supplies such as oil and wheat are increasing. Ultimately, the rising food and fuel prices on the continent is disproportionately affecting MSMEs, but with a more significant impact felt by women led or owned MSMEs, especially those in agribusiness and hospitality, as observed in previous crises. As a result, women will inevitably be the most affected by the food crisis and at risk of continuing to lose their income, increasing the vulnerabilities from the COVID-19 and now the food crisis. This project therefore seeks to address these gender constraints. The project is a GEN II on the Gender Marker System. The project will contribute to increased agricultural productivity for farmers with special attention and targets being set for women and youth.

**4.7.2 Opportunities for Building Resilience.** The project aims to address pockets of fragility escalated in some counties by interethnic conflicts over common pool resources, insecurity due to armed conflict and persistent droughts. Food shortages with the effects of external shocks outlined above escalate the problem. However, poverty can be alleviated or diminished when food insecurity is reduced. Consequently, the long-term solution to food insecurity lies beyond the production of food and includes addressing rural livelihoods in general. Various social safety nets are also part of the solution to absolute poverty and food insecurity, not only in exceptional circumstances such as agri-inputs shortage but also over the long periods required

to arrive at socially inclusive sustainable solutions. One of the main thrusts of the AEFPPF is to boost agricultural production and sustain management of agri-inputs and the environment to ensure resilient livelihoods and sustained economic growth. The program entry points for closing the cereals gap that severely affects communities' lives and food production is vital in guaranteeing enough food for Kenya's population and future generations through better access to certified seeds and good quality subsidized fertilizers with support of innovative and resilient technologies.

#### **4.8 Environmental and Social Safeguards**

**4.8.1 *Environmental and Social Risk Categorization:*** The operation is anticipated to pose low to moderate environmental and social risks, resulting from the large-scale supply of fertilizers, and support to post-harvest management. The project environmental and social risk classification was validated as Category 2, on 28<sup>th</sup> June 2022 in accordance with the national legislation and the Bank's ISS requirements.

**4.8.2 *Environmental and Social Assessments' Disclosure:*** The project has been processed as a rapid response to ensure the rapid delivery of critical inputs (fertilizers and seeds) and build robust food systems, considering the current food challenges. As a Bank emergency relief operation, the project is exempt from preparing and disclosing the Pest Management Plan (PMP) prior to Board approval. However, before project execution, the PMP will be prepared in compliance with the national legislation and the AfDB ISS requirements. The PMP will be prepared by the borrower, cleared, and disclosed both in-country and by the Bank. Any other E&S risk management measures shall be identified and implemented adequately.

**4.8.3 *Environmental and Social Management Safeguards Capacity:*** The MoALFC which will serve as the Implementing Agency (IA), will commit to the establishment of a project implementation mechanism/setup that will ensure the incorporation of the requisite E&S safeguards capacity for the management of E&S risks, satisfactory to the Bank ISS requirements.

**4.8.4 *Public Consultations and Stakeholder Engagement:*** The consultations and stakeholder engagements on the project, will be carried out for the activities dependent on this process during project implementation using appropriate methods and approaches. A grievance redress mechanism will be established and maintained effective over the lifetime of the project.

**4.8.5 *E&S safeguards compliance:*** Quarterly reports on the implementation of E&S measures will be shared with the Bank and stakeholders, as well as annual E&S performance audit reports. The ESCON confirms the project's compliance with the Bank's environmental and social requirements before approval; and are reflected in the financing agreement.

#### **4.9 Climate change**

**4.9.1. *Climate Change and Green Growth:*** The project is classified as Category 2 on the Bank's Climate Safeguards System, meaning it is vulnerable to the impacts of climate change. The main risks are on-going droughts in some parts of the country and the poor rains, which are likely to adversely affect crop and livestock production and productivity. However, the project as designed will build the resilience of Kenya's agricultural system to the foreseen climate change impacts through provision of improved and climate-adapted seeds of maize, rice and wheat as well as enhance agricultural extension to farmers. Enhanced access to fertilizers will help farmers to deal with incidences of crop pest and diseases such as fall and army worm infestation that has become common. Supporting post-harvest management and market development will also help the farmers to reduce post-harvest losses that normally

bedevil smallholder systems as well as ensure enhanced market access and improved prices for produce. The project will therefore contribute to implementing some of Kenya's climate change adaptation contribution for the agriculture sector as outlined in the country's Updated Nationally Determined Contributions and National Adaptation Plan, which include mainstreaming climate-smart agriculture towards enhanced agricultural productivity, building resilience through sustainable land management, and strengthening agricultural extension services.

## **V- IMPLEMENTATION AND LEGAL DOCUMENTS**

### **5.1 Implementation, Monitoring and Evaluation**

**5.1.1 Institutional Framework for Implementation:** The Ministry of Agriculture, Livestock Fisheries and Cooperatives (MoALFC) will serve as the Executing Agency and be responsible for the overall coordination of the AEFPPF, working closely with the National Treasury and other relevant Ministries, Departments and Agencies. The MoALFC will work in close liaison with the county governments as agriculture is fully devolved to counties. The program activities will be implemented at the county level with oversight from MoALFC on policy and financial aspects. Existing coordination mechanisms within the MoALFC will be used.

**5.1.2 Monitoring and Evaluation (M&E) Arrangements:** The quantitative and qualitative indicators in the AEFPPF Results Framework that were agreed with the MoALFC will constitute the instruments for M&E of the proposed operation. The MoALFC, with the support of the Kenya National Bureau of Statistics and other relevant bodies, will be responsible for collecting data and coordinating the M&E efforts. The Bank, with the Department of Agriculture and Agro-Industry playing a coordination role, will monitor the implementation of the programme through regular supervision and follow up as necessary. An AEFPPF Project Completion Report (PCR) will be prepared at completion to evaluate implementation and draw lessons that will inform future Bank interventions.

### **5.2 Financial Management, Disbursement and Procurement**

#### **Country Fiduciary Risk Assessment (CFRA)**

**5.2.1** In April 2022, the Bank undertook a Country Fiduciary Risk Assessment (CFRA) which indicated that the operational capacities for the PFM systems are in place. Through the PFM Reform Strategy, the GoK has started wide ranging initiatives to improve the public financial management systems across the national and county governments. The current PFM Reform Strategy (2018-2023) has identified eight priority results areas and implementation is progressing well. The **overall fiduciary risk is substantial** after considering the mitigation measures, which are being undertaken by the Government.

**5.2.2** The MoALFC in collaboration with the National Treasury will oversee the financial management of the programme, including overseeing the drawdowns, planning for the use of funds, related controls, reporting as well as arranging for oversight. The loan proceeds will be credited to a special account denominated in USD, to be opened at the Central Bank of Kenya, in accordance with the AfDB disbursement procedures. The Government of Kenya through the National Treasury will be required to acknowledge the receipt of the funds, and to provide confirmation to the Bank that an amount equivalent to the loan proceeds in local currency has been credited to the Treasury Account within two weeks of the disbursement from the Bank. The programme will rely on the external audit of the Government by the Office of the Auditor General (OAG) and the Government will be required to share a copy of the audit of the financial

statements of the MoALFC within nine months after the end of the financial year during which the disbursement occurs. The OAG will also be required to conduct a flow of funds audit to confirm the timing, correct conversion of the funds (from USD into Kenya shillings), and its transfer into the Government Exchequer Account.

**5.2.3 Procurement:** The Borrower procurement system will be used for all procurements undertaken using the programme finds, in line with the Bank's policy on PBOs. The Borrower shall cause the Public Procurement Oversight Authority (PPRA) to carry out a procurement audit in accordance with the Borrower's Procurement System on an annual basis. The annual procurement audit report shall be submitted to the Bank no later than six (6) months after the end of each calendar year.

### **5.3 Legal Documentation**

The financing instrument for this crisis response budget support is an ADB Loan governed by a Loan Agreement between the Republic of Kenya (the "Borrower") and the Bank for an amount of Sixty-Three Million Euros (EUR 63.0 million) (the "Loan").

### **5.4 Conditions Associated with the Bank's Intervention**

**5.4.1 *Conditions Precedent to Entry into Force of the Loan Agreement:*** The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank.

**5.4.2 *Prior Actions:*** Before the proposal is presented to the Board for consideration, the Borrower shall have provided evidence, satisfactory in form and substance acceptable to the Bank, that the prior actions for the AEFPF outlined in Table 3, above, have been fully fulfilled.

**5.4.3 *Conditions precedent to disbursement of the Loan:*** The Loan will be disbursed in one tranche, subject to the entry into force of the Loan Agreement and the opening of a foreign currency special account at the *Central Bank of Kenya* for the deposit of the proceeds of the Loan, in form and substance satisfactory to the Bank.

**5.4.4 *Other Conditions.*** The Borrower shall, and shall cause the Executing Agency, and any of its contractors or agents to:

- (a) prepare a Pest Management Plan, in form and substance satisfactory to the Bank, prior to the distribution of fertilizers and chemicals under the Programme;
- (b) recruit a qualified E&S Specialist who shall be responsible for the implementation, monitoring of the Integrated Pest Management Plan (IPMP);
- (c) prepare and submit to the Bank, quarterly reports on the implementation of the IPMP; and
- (d) prepare and submit to the Bank, 3<sup>rd</sup> party E&S Compliance Audits in form and substance satisfactory to the Bank on annual basis.

### **5.5 Compliance with Bank Group Policies**

**The AEFPF operation complies with all applicable Bank Group policies and guidelines,** including: (i) Bank Policy on Programme-Based Operations (2012), (ii) the Bank Group Ten-Year Strategy (2013-2022); (iii) The High 5s operational priorities – in particular the Feed Africa Strategy; (iv) the Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations; (v) the Bank Group's Credit Policy on non-concessional financing; (vi) the Proposal for the Establishment of the African Emergency Food Production Facility (2022); and (vii) the Kenya Country Strategy Paper (2019-2023).



## **5.6 Risk Management**

The risks and mitigation measures are presented in Annex V.

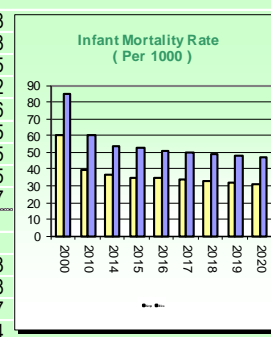
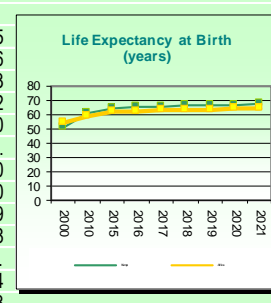
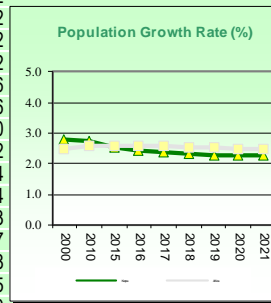
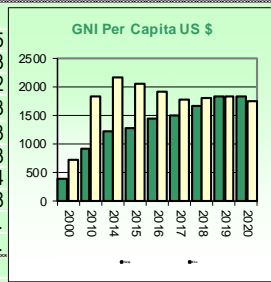
## **VI- RECOMMENDATION**

Management recommends that the ADB Board of Directors approve an ADB Loan not exceeding Sixty-Three million Euros (EUR 63.0 million) to the Republic of Kenya, for the fiscal year 2022/23 within the framework of the African Emergency Food Production Facility (AEFPF) and for the purposes, and subject to the conditions, stipulated in this report.

# ANNEX I: SOCIO-ECONOMIC INDICATORS

## Kenya COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Kenya	East Africa	Africa	Developing Countries
<b>Basic Indicators</b>					
Surface Area ('000 Km²)	2021	580	6,228	30,064	96,535
Total Population (millions)	2021	55.0	385.3	1,371.7	6,518.3
Urban Population (% of Total)	2021	28.4	28.8	44.3	51.2
Population Density (per Km²)	2021	96.6	66.0	46.7	69.3
GNI per Capita (US \$)	2020	1 840	957	1 767	4 843
Labor Force Participation * - Total (%)	2021	73.2	71.5	61.9	58.3
Labor Force Participation ** - Female (%)	2021	71.0	65.3	53.3	44.4
Sex Ratio (per 100 female)	2021	98.8	99.4	99.9	106.8
Human Develop. Index (Rank among 189 countries)	2019	143	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-19	37.1	34.2	34.1	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2021	2.3	2.6	2.5	1.2
Population Growth Rate - Urban (%)	2021	4.2	4.5	3.6	2.2
Population < 15 years (%)	2021	38.0	41.1	40.1	27.2
Population 15-24 years (%)	2021	21.0	20.7	19.3	16.2
Population ≥ 65 years (%)	2021	2.6	3.0	3.6	7.6
Dependency Ratio (%)	2021	68.3	79.1	77.6	54.6
Female Population 15-49 years (% of total population)	2021	26.3	24.6	24.3	25.0
Life Expectancy at Birth - Total (years)	2021	67.2	65.8	64.1	71.2
Life Expectancy at Birth - Female (years)	2021	69.6	67.8	65.9	73.4
Crude Birth Rate (per 1,000)	2021	27.6	32.5	32.2	19.4
Crude Death Rate (per 1,000)	2021	5.3	6.4	7.7	7.3
Infant Mortality Rate (per 1,000)	2020	31.2	37.5	46.6	29.7
Child Mortality Rate (per 1,000)	2020	46.8	36.0	47.5	39.8
Total Fertility Rate (per woman)	2021	3.3	4.2	4.2	2.5
Maternal Mortality Rate (per 100,000)	2017	342.0	444.2	475.7	231.0
Women Using Contraception (%)	2021	63.8	41.1	38.3	59.1
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2010-19	19.6	18.0	38.1	138.5
Nurses and midwives (per 100,000 people)	2010-19	105.9	85.3	106.5	254.6
Births attended by Trained Health Personnel (%)	2010-20	61.8	55.4	64.4	79.3
Peop. Using at least basic drinking water services (% of Pop)	2020	61.6	56.1	69.3	88.2
Peop. Using at least basic sanitation services (% of Populat)	2020	32.7	25.6	41.9	74.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2020	4.2	2.5	3.0	...
Incidence of Tuberculosis (per 100,000)	2020	259.0	168.6	193.2	149.0
Child Immunization Against Tuberculosis (%)	2019	95.0	81.1	81.0	88.0
Child Immunization Against Measles (%)	2019	89.0	76.5	71.9	84.9
Underweight Children (% of children under 5 years)	2010-20	18.8	14.0	16.8	13.8
Prevalence of stunting	2010-20	28.1	29.5	31.9	...
Prevalence of undernourishment (% of pop.)	2019	24.8	22.	17.7	10.4
Current health expenditure (% of GDP)	2019	4.6	4.1	5.1	5.3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2011-21	103.2	104.2	103.0	101.8
Primary School - Female	2011-21	103.4	102.1	101.0	100.8
Secondary School - Total	2011-21	...	36.3	52.7	72.5
Secondary School - Female	2011-21	...	36.5	50.8	72.2
Primary School Female Teaching Staff (% of Total)	2010-21	50.2	44.8	50.5	63.6
Adult literacy Rate - Total (%)	2010-20	81.5	65.7	68.2	84.5
Adult literacy Rate - Male (%)	2010-20	62.2	74.8	72.4	88.5
Adult literacy Rate - Female (%)	2010-20	78.2	60.2	61.4	80.5
Government expenditure on Education (% of GDP)	2010-20	5.1	4.2	4.8	3.7
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2018	10.2	13.5	8.2	11.3
Agricultural Land (as % of land area)	2018	48.5	51.2	37.8	37.8
Forest (As % of Land Area)	2020	6.3	22.1	22.6	31.7
Per Capita CO2 Emissions (metric tons)	2018	0.4	0.2	1.1	3.4



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

April 2022

UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. \* Labor force participation rate, total (% of total population ages 15+)

\*\* Labor force participation rate, female (% of female population ages 15+)

## ANNEX II: IMF COUNTRY RELATION NOTE

### IMF Reaches Staff Level Agreement on the Third Review of the Extended Fund Facility and Extended Credit Facility for Kenya

April 25, 2022

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- IMF staff and the Kenyan authorities have reached a staff-level agreement on economic policies to conclude the third reviews of the 38-month EFF/ECF financed program. Kenya would have access to about US\$244 million in financing once the review is formally completed by the IMF Executive Board.
- The economic rebound is underway although global shocks are presenting new challenges in the form of rising global energy, fertilizer, and food prices, which will pressure inflation and create new spending needs.
- Kenya's robust program performance is delivering resilience that is helping the country navigate these global shocks while remaining within the authorities' targets and continuing to make progress in addressing debt vulnerabilities.

**Washington, DC:** A staff team from the International Monetary Fund (IMF) led by Mary Goodman, conducted a hybrid mission to Kenya and in Washington DC from March 31 – April 22 to discuss progress on reforms and the authorities' policy priorities in the context of the third review of Kenya's economic program supported by the IMF's [Extended Fund Facility](#) (EFF) and [Extended Credit Facility](#) (ECF). The arrangements were [approved by the IMF Executive Board on April 2, 2021](#), for a total amount of SDR 1.655 billion (US\$ 2.34 billion at that time).

At the conclusion of the mission, Ms. Goodman issued the following statement:

“The IMF staff team and the Kenyan authorities have reached a staff-level agreement on the third review of Kenya's economic program under the EFF and ECF arrangements. The agreement is subject to approval of IMF management and the Executive Board in the coming weeks. Upon completion of the Executive Board review, Kenya would have access to SDR 179.13 million (equivalent to about US\$ 244 million), bringing the total IMF financial support under these arrangements to SDR 865.77 million (equivalent to about US\$ 1,178 million).

“The Kenyan economy has been staging a robust recovery as the effects of the pandemic wane, and the authorities remain vigilant. Spillovers from the war in Ukraine are expected to have a modest impact on growth in the near term, as Kenya's direct exposure to Russia and Ukraine is relatively limited. Staff projects growth at 5.7 percent in 2022, reflecting a pickup in agriculture and continued recovery in services and other sectors. By mid-April 2022, 30 percent of adults had been fully vaccinated against COVID-19, up from 5 percent at end-2021. The medium-term outlook remains favorable, supported by Kenya's proactive reform efforts, although the outlook is subject to uncertainty.

“Spillovers from the war in Ukraine are expected to temporarily push up inflation as domestic retail fuel prices gradually rise to global levels. The Central Bank of Kenya (CBK) has stated that it stands ready to take appropriate action to contain second-round effects of higher global prices on inflation. Exchange rate flexibility has served Kenya well and should continue to be a shock absorber that will help mitigate the impact of these external shocks.

“Kenya is on track to meet its fiscal objectives and put debt as a share of GDP firmly on a downward path. Kenya’s fiscal position has been underpinned by strong tax revenue performance this year, buoyed by a robust economic recovery and the important tax policy measures already undertaken as part of Kenya’s multi-year plan to reduce debt-related vulnerabilities. These resources bring resilience that will allow cushioning part of the impact of the sharp increase in global energy and fertilizer prices on households and businesses while still remaining within the authorities’ fiscal targets for FY2021/22.

“The FY2022/23 budget carries forward the authorities’ efforts to broaden tax revenue mobilization and maintain careful expenditure control while protecting social priority spending. Revenue targets for FY22/23 will be supported by tax policy changes, including planned custom interventions in the context of the East African Community, and improvements in tax administration. In this regard, the authorities will take into account the need to protect vulnerable groups in light of the recently increased cost of living. A medium-term revenue strategy which is under development and tight spending control will help anchor deficit reduction in the years ahead.

“The banking sector has remained resilient, supported by steps taken by the CBK to sustain the economy and help households and businesses navigate the challenging environment. The CBK is also making progress in strengthening its monetary policy framework.

“It will be important to maintain the momentum of reforms to tackle difficulties at financially-troubled state-owned enterprises (SOEs)—including Kenya Airways (KQ) and the Kenya Power and Lighting Company (KPLC). At KQ, which had already benefitted from a government guarantee on a large portion of its debt liabilities, steady progress on the ongoing restructuring effort will be important to minimize costs to the Exchequer. At KPLC, crystallizing an action plan to restore KPLC’s medium-term profitability and fully cover any financing gaps through end-2023 will likewise be critical to minimize calls on the budget. The authorities’ plans to implement their Blueprint for Governance Reforms at the State Corporations will provide a welcome framework to strengthen the governance of SOEs.

“Kenya is moving forward on its governance and anticorruption agenda. Revised documents for government tenders, introduced on April 21, 2022, will enable publication of beneficial ownership information for successful bidders in government tenders, which will be a requirement going forward. The special audits being undertaken of COVID-19 vaccination spending up to end-June 2021 and plans to include a chapter on COVID-19-related spending in the Auditor General’s comprehensive audit of FY20/21 expenditure should provide important transparency in the coming months on the government’s pandemic response.

“The staff team is grateful to the authorities for the candid and constructive discussions, and for their proactive approach to ensure success of their economic program supported by the IMF. The team met with Cabinet Secretary for the National Treasury and Planning, Mr. Ukur Yatani; Governor of the Central Bank of Kenya (CBK), Dr. Patrick Njoroge; Head of the Public Service, Dr. Joseph Kinyua; the Principal Secretary for the National Treasury, Dr. Julius Muia; Deputy Governor of the CBK, Ms. Sheila M’Mbijjewe; and other senior government and CBK officials. Staff also had productive discussions with representatives of leading contenders for the upcoming presidential election, the Parliamentary Budget Office, the private sector, civil society organizations, and development partners as part of their usual practice of taking stock of economic conditions at the country level.”

## ANNEX III: RESULTS FRAMEWORK

### RESULTS FRAMEWORK FOR EMERGENCY FOOD PRODUCTION SUPPORT PROGRAM

A	PROJECT INFORMATION				
PROJECT NAME AND SAP CODE: African Emergency Food Production Facility-Kenya, SAP Code: P-KE-A00-002					
COUNTRY: Kenya					
PROJECT GOAL: Enhanced agricultural productivity through increased cereal and oil seed production, and policy support to mitigate food crisis and build resilience of farmers in Kenya.					
PROJECT ALIGNMENT WITH COUNTRY AND AEFPP:	a) Country Strategies: Agricultural Sector Transformation and Growth Strategy (2019-2029) and Kenya Vision 2030				
	b) (i) AEFPP: Provide technical support and finance to mitigate food price inflation through supply of key inputs such as improved certified seeds and fertilizers, and support to policy harmonization and reforms in the sector (ii) Feed Africa Strategy and (iii) Bank Ten Year Strategy				
	c) Alignment indicators: Cereal production increase, oil seed production increase, number of farmers benefiting from inputs (disaggregated by sex), number of policies harmonized for the supply of and accessibility to seeds and fertilizers, number of private sector actors and agro-dealer supported with access to finance.				
B	RESULTS MATRIX				
RESULTS CHAIN AND INDICATOR DESCRIPTION	UNIT	BASELINE [2022]	TARGET AT COMPLETION [2024]	MEANS OF VERIFICATION	FREQUENCY OF REPORTING
OUTCOME 1: Enhanced agricultural productivity through improved certified seeds dissemination					
OUTCOME INDICATOR 1.1: Percentage increase in total quantities of maize, wheat and rice produced respectively.	MT	Maize-3.78 Wheat-0.405 Rice-0.181	Maize-4.75 (25%) Wheat-0.506 Rice-0.0.226	MoALFC	Annual
OUTCOME INDICATOR 1.2: Percent increase in total quantity of oil seeds produced	MT	0.180	0.216 (20%)	MoALFC	Annual
OUTPUT 1: Scaled up food production					
Output Indicator 1.1: Quantity of certified seed received by vulnerable farmers disaggregated by gender.	MT	500	20,000 (50% to women)	MoALFC	Quarterly
Output Indicator 1.1.1: Quantities certified maize, wheat, and rice seeds distributed to farmers using e-voucher system.	MT	20,000	35,000	MoALFC	Quarterly
Output Indicator 1.1.2: Quantities of certified oil seeds (soybean) and animal feeds delivered to farmers using e-voucher systems.	MT	1,500	5,000	MoALFC	Quarterly
Output Indicator 1.1.3: Number of farmers receiving improved certified seeds (cereal and oil crop)	Number	300,000	1,300,000 (40% women)	MoALFC	Quarterly
Output Indicator 1.1.4: Number of additional Ha put under crop production.	Ha	200,000	900,000	MoALFC	Quarterly
Output Indicator 1.2: Quantity of fertilizer distributed to farmers through the e-voucher system.	MT	114,000	600,000	MoALFC	Quarterly
Output Indicator 1.2.1: Number of farmers registered through the national farmer registry database	Number	100,000	1,300,000 (50% women)	MoALFC/ MTR	Quarterly

<b>OUTPUT INDICATOR 1.3:</b> Number of farmers receiving extension and other services through the e-voucher system	Number	0	600,000 (40% women)	MoALFC /MTR	Quarterly
<b>Output Indicator 1.3.1:</b> Number of extension service workers trained and equipped	Number	0	4000	MoALFC, MTR	Quarterly
<b>Output Indicator 1.4:</b> Percentage reduction levels in post-harvest losses through improved grain management.	%	40	25	MoALFC, MTR	Quarterly
<b>1.4.1:</b> Number of farmers benefiting from improved post-harvest loss technologies and management practices disaggregated by gender.	Number	0	1,300,000 (50% women)	MoALFC, MTR	Quarterly
<b>II OUTPUT 2: Enhanced agro-commodity financing (fertilizer and seed supply financing)</b>					
<b>Output Indicator 2.1:</b> Number of private sector entities (wholesalers and aggregators, local input suppliers) receiving credit guarantees on fertilizer	Number (of entities)	0	TBD	MoALFC, MTR/AFC	Quarterly
<b>Output Indicator 2.1.2:</b> Amount of financial support received by private sector through AFC	USD	0	10,000,000	MoALFC, MTR/AFC	Quarterly
<b>Output Indicator 2.1.2:</b> Amount of financial support received by certified seed producers through AFC	USD	0	5,000,000	MoALFC, MTR/AFC	Quarterly
<b>III OUTPUT 3: Improved Agriculture Policies and Institutional Capacity</b>					
<b>Output Indicator 3.1.1:</b> Number of counties with strengthened institutional coordination and regulatory capacity	Number	13	37	MoALFC, MTR	Semi-annually
<b>Output Indicator 3.1.2:</b> Number of relevant policies and reforms developed, ratified, and implemented	Number	0	3	MoALFC, MTR	Semi-annually
<b>Output Indicator 3.1.3:</b> National budget allocations for agricultural inputs and smart subsidies	KES (Billions)	5.7	13.5	NT, MoALFC	Semi-annually

## ANNEX IV: AEFPP RISKS AND MITIGATION MEASURES

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
<b>POLITICAL RISK</b>	Kenya's general elections on 9 August 2022 present potential political, economic, and social instability.	SUBSTANTIAL	Kenya's Independent Electoral and Boundaries Commission (IEBC) is committed to conduct free and fair elections.	Government of Kenya
<b>MACROECONOMIC RISK</b>	Kenya's vulnerability to exogenous shocks remains a major source of risk. This has been heightened by the COVID-19 pandemic and the Russia-Ukraine conflict.	SUBSTANTIAL	Sustained commitment of the Government to fully implement the reforms designed to contain the fiscal deficit, bring public debt on a declining path, and address structural challenges. AEFPP implementation is designed to address the effects of the Russia-Ukraine war on food prices.	Government of Kenya
<b>FIDUCIARY AND VALUE FOR MONEY RISK</b>	Some areas of weakness relate to the procurement framework and high perception of corruption.	MODERATE	Continue strengthening the procurement and anticorruption frameworks and implementing PFM reforms.	Government of Kenya
<b>SOCIAL IMPACT RISK</b>	The fiscal space for social spending continues to narrow due to external shocks relating to the pandemic and the Russia-Ukraine war. Reduced transfers increase likelihood of social unrest.	MODERATE	Take steps to ring-fence and increase pro-poor spending and strengthen social safety nets through better targeting.	Government of Kenya

## ANNEX V: Matrix on M&E Arrangements

A. Alignment indicators						
Indicator name		Definition/ description	Source	Baseline and targets (where possible)		
Number of people who are hungry / malnourished;		Number of people with food and nutrition insecurity	KNBS/E S/HBS Reports	Baseline (2022): 3.1 million; Target (date): 2.1 million		
Population living below the poverty line		Proportion of the population with a standard of living below the poverty line.	KNBS/E S/HBS Reports	Baseline (2022): 34.4% Target (date): 33.4%		
B. Outcome and output indicators (performance indicators)						
Indicator name	Definition/ description	Methodolo gy for collection	Responsibilit y for collection	Frequency of reporting	Results planning	
					Mid-term	Completion
Outcome Indicators						
% Increase in cereal produced-maize, wheat and rice	% Increased cereal produced resulting from increased access to certified cereal seeds and fertilizer	Program progress reports, M&E reports	MoALFC,	Annually	10	25
% increase in total quantity of oil seeds produced	%Increased oil seeds produced resulting from increased access to certified oil seeds and fertilizer			Annually	5	20
Output Indicators						
Quantity of certified seed received by vulnerable farmers disaggregated by gender.	Quantity of certified and climate-adapted seeds received by vulnerable farmers through the e-voucher system	Project progress reports	MoALFC	Quarterly	15,000	40,000
Quantities of certified maize, wheat, and rice seeds distributed to farmers using e-voucher system.	Quantity of certified and climate-adapted maize, wheat and rice seeds received by farmers through the e-voucher system	Project progress reports	MoALFC	Quarterly	10,000	35,000
Quantity of certified oil seeds (soybean) and animal feeds delivered to farmers using e-voucher systems.	Quantity of certified and climate-adapted oil seeds received by farmers through the e-voucher system	Project progress reports	MoALFC,	Quarterly	1500	5000
Number of additional Ha put under crop production.	Additional area put under crop production	Project progress reports	MoALFC	Quarterly	500,000	900,000
Quantities of fertilizer distributed by agro-dealers via the e-voucher system	Amount of fertilizer availed to farmers through the e-voucher system	Project progress reports	MoALFC	Quarterly	20,000	100,000
Number of farmers registered through the national farmer registry database	Registered farmers in the national farmers registry database	Project progress reports	MoALFC	Quarterly	200,000	500,000



Number of farmers receiving extension and other services through the e-voucher system	Farmers receiving extension and other services through the e-voucher system	Project progress reports	MoALFC	Quarterly	300,000	1,300,000(40% women)
Number of extension service workers trained and equipped	Extension workers trained and equipped to serve farmers effectively	Project progress reports	MoALFC	Quarterly	500	4,000 (40% women)
Percentage reduction levels in post-harvest losses through improved grain management.	Absolute reduction level in post-harvest losses due to improved grain management	Project progress reports	MoALFC	Semi-annually	35	25
Number of farmers benefiting from improved post-harvest loss technologies and management practices disaggregated by gender.	Number of farmers benefiting from improved post-harvest loss technologies and management practices disaggregated by gender.	Project progress reports	MoALFC	Quarterly	200,000	1,300,000 (50% women)
Number of private sector entities (wholesalers and aggregators, local input suppliers) receiving credit guarantees on fertilizer	Private sector entities including agro-dealers and other fertilizer suppliers receiving financial support through AFC	Project progress reports	MoALFC/ AFC	Quarterly	TBD	TBD
Amount of financial support received by private sector through AFC	Total amount of financial support channelled to private sector entities via AFC for input subsidies (KES)	Project progress reports	MoALFC/ AFC	Quarterly	5,000,000	10,000,000
Number of counties with strengthened institutional coordination and regulatory capacity	Counties with strengthened institutional and regulatory coordination due to increased capacity building	Project progress reports	MoALFC	Semi-annually	13	37
Number of relevant agricultural policies developed, ratified and implemented	Agricultural reform Bills passed by parliament and policy reform briefs produced to indicate progress in these reforms	Project progress reports	MoALFC	Semi-annually	1	3
National budget allocations for agricultural inputs and smart subsidies	Increased budget allocations for agricultural inputs and smart subsidies for the same (KES Billions)	Project progress reports	NT and MoALFC	Semi-annually	5.7	13.5

## ANNEX VI: LETTER OF REQUEST



**REPUBLIC OF KENYA**  
**THE NATIONAL TREASURY AND PLANNING**

Telegraphic Address: 22921  
TREASURY  
Finance – Nairobi  
00100  
FAX NO. 310833  
NAIROBI  
Telephone: 2252299  
KENYA

When Replying Please Quote

REF: NT/RMD/01/510/169/01/ A /3

THE NATIONAL

P O BOX 30007 -

Date: 9<sup>th</sup> June, 2022

**Mrs. Nnenna NWABUFO**  
Director General  
Regional Development and Business Delivery Office,  
East Africa (RDGE)  
African Development Bank  
P.O. Box 4861-00200  
**NAIROBI**

Dear *Nnenna*,

**RE: REQUEST FOR FINANCING FROM THE AFRICAN EMERGENCY FOOD  
PRODUCTION FACILITY**

The Government of Kenya has developed the Agricultural Sector Transformation and Growth Strategy (ASTGS) 2019-2029. The ASTGS prioritizes three anchors to drive the 10-year transformation, with specific targets that include irrigation of 1.2 million acres to expand area under crop production, subsidize 200,000 Mt of assorted fertilizers annually under the fertilizer cost reduction programme, expand the strategic food reserve trust fund to include additional foodstuffs and establish livestock disease free zones and strategic feed reserves including one million bales of hay and 100 metric tonnes of pasture seeds.

However, despite these efforts, our country is still dependent on imports for the supply of certain key food products and staples. This dependence, particularly on basic inputs such as fertilizers, and other foodstuffs, has deepened the country's vulnerability to external shocks and justifies the state's strategy aimed at food sovereignty.

The impact of COVID 19 on cereal production and supply chains, exacerbated by the consequences of the war in Ukraine, constitutes an additional threat to the country's food security and recalls the urgency of accelerating this food security objective.

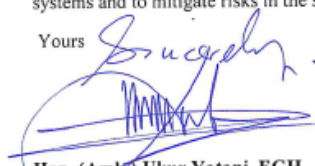
The war in Ukraine is causing considerable impact on our food systems in terms of input services, imports, and commodity price increase. The war is also deepening the shortfall in fertilizer, driving prices higher, lowering accessibility, thereby threatening agricultural production as many countries head into the planting season.

It is estimated that during the 2022 and 2023 planting seasons, the country will require 574,000MT of various types of fertilizers. To maintain the price of fertilizers at as they prevailed in July 2020, a total of Kshs. 31.85 billion fertilizer subsidy is required.

The Sector Budget Support will focus on three pillars: i) delivering certified quality seeds of climate-adapted varieties, fertilizers, and extension services to farmers; and supporting post-harvest management and market development; ii) providing financing for the large-scale supply of fertilizers to wholesalers and aggregators to bridge the fertilizer supply gap, to meet the immediate liquidity requirements of companies to procure fertilizer; and iii) promoting policy dialogue and the implementation of policy reforms to address structural factors that are preventing modern inputs from reaching farmers in short and medium term.

In light of the above, the Government of Kenya requests funding from the African Development Bank in the form of agricultural sector budget support in 2022, amounting to **UA 50 million (Approx. USD70.50 million)** within the framework of the African Emergency Food Production Facility (AEFPF) to fast track and scale up the implementation of inputs subsidies programmes. This funding is designed to boost local food production and to build and strengthen the resilience of food systems and to mitigate risks in the short & longer term due to the war in Ukraine.

Yours



Hon. (Amb.) Ukur Yatani, EGH  
**CABINET SECRETARY/THE NATIONAL TREASURY & PLANNING**

## ANNEX VII: MAP OF THE REPUBLIC OF KENYA






## ANNEX VIII: ENVIRONMENT AND SOCIAL COMPLIANCE NOTE

<b>A. Basic Information<sup>4</sup></b>			
Project Title: The African Emergency Food Production Facility (K-AEFPF)		Project "SAP code": P-KE-A00-002	
Country: Kenya	Lending Instrument <sup>5</sup> : DI <input type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input checked="" type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Agriculture		Task Team Leader: Edson MPYISI	
Appraisal date: 13-17/06/2022		Estimated Approval Date: 14/07/2022	
Environmental Safeguards Officer: Emmanuel MULIGIRWA			
Social Safeguards Officer: XXXXX			
Environmental and Social Category: 2	Date of categorization: 28/06/22	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input checked="" type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
<b>B. Disclosure and Compliance Monitoring</b>			
<b>B.1 Mandatory disclosure</b>			
<b>Environmental Assessment/Audit/System/Others (specify: Pest Management Plan (PMP))</b>			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
<b>Resettlement Action Plan/Framework/Others (specify: NA)</b>			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
<b>Vulnerable Peoples Plan/Framework/Others (specify: NA)</b>			
Was the document disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: <i>As per the provision of the African Emergency Food Production Facility paper approved by the Board, the preparation and disclosure of the E&amp;S documents are deferred after Board Approval. They will be prepared and disclosed in-country and by the Bank prior the implementation of concerned activities.</i>			
<b>B.2. Compliance monitoring indicators</b>			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>	
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>	
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>	
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>	
<b>C. Clearance</b>			

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes ☒ No ☐

Prepared by:	Name	Signature	Date
Environmental Safeguards Officer:	Emmanuel MULIGIRWA		29/06/2022
Social Safeguards Officer:	XXXXXX		
Task Team Leader:	Edson MPYISI		29/06/2022
<b>Submitted by:</b>			
Sector Director:	Martin FREGENE		29/06/2022
<b>Cleared by:</b>			
Director SNSC:	Maman-Sani ISSA		02/07/2022

<sup>4</sup> Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

<sup>5</sup> DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.