

**CONFORMED COPY**

**CREDIT NUMBER 3929 KE  
GRANT NUMBER H098 KE**

# **Development Financing Agreement**

**(Agricultural Productivity Project)**

**between**

**REPUBLIC OF KENYA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 25, 2004**

**CREDIT NUMBER 3929 KE**  
**GRANT NUMBER H098 KE**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated June 25, 2004, between REPUBLIC OF KENYA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated March 19, 2004, describing a program of actions, objectives and policies designed to improve the performance of the Borrower's agricultural technology supply and demand system (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association assist in the financing of the Program through a series of grants and credits over a period of approximately twelve years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(D) Part C.2 of the Project will be carried out by Kenya Agricultural Research Institute (KARI) with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the Credit provided for in this Agreement available to KARI, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit and the Grant to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and KARI (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means a community of farmers, recognized under the Law of the Borrower, which has met the eligibility criteria set out in the FGM (as hereinafter defined) and the requirements of Schedule 4 to this Agreement and as a result, has received, or is entitled to receive, a Farmer Grant (as hereinafter defined);

(b) "Districts" means the Borrower's administrative districts participating in the Project namely Makueni, Embu, Meru Central, Wajir, Garissa, Tana River, Kwale, Taita Taveta, Kilifi, Siaya, Gucha, Homa Bay, Nakuru, Trans Nzoia, West Pokot, Kakamega, Butere, Busia, Nyeri and Nyandarua;

(c) "District Farmers' Forum" means the consultative body of farmer groups at District levels and referred to in paragraph 10 of Schedule 4 to this Agreement;

(d) "District Service Unit" means each of the units to be established by the Borrower in the Districts to implement pilot interventions at District levels and referred to in paragraph 7 of Schedule 4 to this Agreement;

(e) “Eligible Categories” means: (i) Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement for Special Account A (as defined in Part B.1 of Schedule 1 to this Agreement); and (ii) Categories (1) through (7) set forth in said table for Special Account B (as defined in Part B.1 of Schedule 1 to this Agreement);

(f) “Eligible Expenditures” means expenditures in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Financing allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement;

(g) “Farmer Grant” means a grant to be made out of the proceeds of the Financing for a Beneficiary under Parts B.2, C.2 and D.3 of the Project;

(h) “Farmer Grant Agreement” means an agreement to be entered into between a Beneficiary and the Project Secretariat as specified in the FGM (as hereinafter defined), for the provision of a Farmer Grant in accordance with the provisions of paragraph 13 of Schedule 4 to this Agreement;

(i) “Farmer Grant Manual” or “FGM” means the manual referred to in paragraph 11 of Schedule 4 to this Agreement;

(j) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(k) "Initial Deposit" means the initial amount to be deposited into the Project Account (as hereinafter defined) and referred to in Section 3.03 (b)(i) of this Agreement;

(l) "Inter-Ministerial Coordination Committee" means the committee to be established by the Borrower to provide overall coordination and strategic guidance for the implementation of the Project and referred to in paragraph 1 of Schedule 4 to this Agreement;

(m) "Kenya Agricultural Research Institute" or "KARI" means the institute established pursuant to the Borrower's Science and Technology Act, 1979 (CAP 250) to, among other things, carry out research in agriculture, veterinary sciences, and forestry;

(n) "Kenya Shilling" or "KES" means the currency of the Borrower;

(o) "National Forum" means the Borrowers consultative body composed of the agricultural sector stakeholders;

(p) "National Farmers' Forum" means the consultative body of farmer associations to be established by the Borrower under Part D.1 of the Project;

(q) "Operating Account" means each of the accounts referred to in Part C.3 of Schedule 4 to this Agreement;

(r) "Project Account" means the account referred to in Section 3.03 (a) of this Agreement;

(s) "Project Agreement" means the agreement between the Association and KARI of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(t) "Project Implementation Plan" or "PIP" means the plan to be prepared by the Borrower for the implementation of the Project and referred to in paragraph 8 of Schedule 4 to this Agreement;

(u) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on February 20, 2004 and on behalf of the Borrower on February 25, 2004;

(v) "Project Secretariat" means the secretariat to be established by the Borrower to oversee the day-to-day implementation of the Project and referred to in paragraph 5 of Schedule 4 to this Agreement;

(w) "Project Steering Committee" means the committee to be established by the Borrower to provide overall guidance and review and approve, *inter alia*, annual

work plan for the implementation of the Project and referred to in paragraph 3 of Schedule 4 to this Agreement;

(x) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(y) “Researcher” means an agricultural research scientist, a research institution, or a university who or which has met the eligibility criteria set out in the RGM (as hereinafter defined) and the requirements of Schedule 4 to this Agreement and as a result, has received, or is entitled to receive, a Research Grant (as hereinafter defined);

(z) “Research Grant” means a grant to be made out of the proceeds of the Financing for a Researcher to under Part C.1 of the Project;

(aa) “Research Grant Agreement” means an agreement to be entered into between a Researcher and the Project Secretariat as specified in the RGM (as hereinafter defined), for the provision of a Research Grant in accordance with the provisions of paragraph 16 of Schedule 4 to this Agreement;

(bb) “Research Grant Manual” or “RGM” means the manual referred to in paragraph 14 of Schedule 4 to this Agreement;

(cc) “Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and KARI pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement; and

(dd) “Special Accounts” means the accounts defined in Part B.1 of Schedule 1 to this Agreement.

## **ARTICLE II**

### **The Financing**

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to eighteen million Special Drawing Rights (SDR 18,000,000) (the Credit); and

(b) an amount in various currencies equivalent to eight million seven hundred thousand Special Drawing Rights (SDR 8,700,000) (the Grant).

Section 2.02. (a) (i) the amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (A) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A and C.2 of the Project and to be financed out of the proceeds of the Credit; and (B) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made under a Farmer Grant to meet the reasonable cost of goods, works and services to be financed under Part C.2 of the Project, in respect of which the withdrawal from the Credit Account is requested; and

(ii) the amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (A) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts B, C.1, and D of the Project and to be financed out of the proceeds of the Grant; and (B) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made under a Farmer Grant to meet the reasonable cost of goods, works and services to be financed under Parts B. 2 and D.3 of the Project, and under a Research to meet the reasonable cost of goods, works and services to be financed under Parts C.1 of the Project, in respect of which the withdrawal from the Grant Account is requested.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of

one-half of one percent ( $1/2$  of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent ( $1/2$  of 1%) per annum.

(b) Each commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Parts A, B, C.1 and D of the Project through its Ministry of Agriculture and Ministry of Livestock and Fisheries Development with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and



- (ii) without any limitation or restriction upon any of its other obligations under the Development Financing Agreement, shall cause KARI to carry out Part C.2 of the Project and perform in accordance with the provisions of the Project Agreement all the obligations of KARI therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KARI to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(b) The Borrower shall make available part of the proceeds of the Credit to KARI under a Subsidiary Grant Agreement to be entered into between the Borrower and KARI, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and the Grant, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall:

(a) open an account in Kenya Shilling in a commercial bank acceptable to the Association (the Project Account), and thereafter maintain the Project Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Project Account: (i) an initial amount of the KES 12,000,000 (the Initial Deposit); and (ii) thereafter, at quarterly intervals, replenish the Project Account by the amounts required to finance the Borrower's contribution for expenditures under the Project other than those financed from the proceeds of the Credit, as shall be agreed upon between the Borrower and the Association; and

(c) ensure that funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Financing.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried by KARI in respect of Part C.2 of the Project pursuant to Section 2.03 of the Project Agreement.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section and the record and accounts for the Special Accounts and the Operating Accounts for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements, records and accounts by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, record and accounts and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Financing Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Financing Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 17 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of

such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) KARI shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Financing Agreement, an extraordinary situation shall have arisen which shall make it improbable that KARI will be able to perform its obligations under the Project Agreement.

(c) The Borrower's Science and Technology Act, 1979 (CAP 250) shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KARI to perform any of its obligations under the Project Agreement.

(d) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Financing Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Grant Agreement has been executed on behalf of the Borrower and KARI;

(b) the Borrower has prepared and furnished to the Association a PIP in form and substance satisfactory to the Association;

(c) the Borrower has established and operated the Inter-Ministerial Coordination Committee and the Project Steering Committee in a manner satisfactory to the Association;

(d) the Borrower has established the Project Secretariat and recruited thereto staff with qualification and experience satisfactory to the Association including a coordinator, a research specialist, an extension specialist and a farmer and client empowerment specialist;

(e) the Borrower has established a financial management system for the Project in form and substance satisfactory to the Association, including the Borrower's ability to produce FMRs; and

(f) The Borrower has opened the Project Account and has deposited therein the Initial Deposit referred to in Section 3.03 of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by KARI, and is legally binding upon KARI in accordance with its terms; and

(b) that the Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and KARI and is legally binding upon the Borrower and KARI in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Borrower's Minister for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Treasury Building  
P.O Box 30007-00100  
Nairobi, Kenya

	Cable address:	Telex:	Facsimile:
330426	FINANCEnairobi	22921minfin-ke	+ (254) 20

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

	Cable address:	Telex:	Facsimile:
477-6391	INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Nairobi, Kenya, as of the day and year first above written.

REPUBLIC OF KENYA

By       /s/       David Mwiraria

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By       /s/       Makhtar Diop

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Financing

#### A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in (SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in (SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Part C.2 of the Project	1,300,000	0	90%
(2) Goods and Equipment foreign and			100% of expenditures, 90% of local expenditures
(a) under Parts A, B C.1 and D of the Project	800,000	0	
(b) under Part C.2 of the Project	3,700,000	0	
(3) Consultants' services including audits			85%
(a) under Parts A, B C.1 and D of the Project	500,000	500,000	
(b) under Part C.2 of the Project	1,500,000	0	
(4) Training and Workshops			100%



(a) under Parts A, B 400,000 1,700,000  
C.1 and D of the Project

(b) under Part C.2 1,300,000 0  
of the Project

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in (SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in (SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Research Grants amounts			100% of
under Part C.1 of the Project	0	1,200,000	disbursed
(6) Farmer Grants amounts			100% of
			disbursed
(a) under Parts B.2 and D.3 of the Project	0	4,100,000	
(b) under Part C.2 of the Project	800,000	0	
(7) Operating costs			
(a) under Parts A, B C.1 and D of the Project	1,200,000	0	85%
(b) under Part C.2 of the Project	4,100,000	0	85% up to December 31, 2005, 75% up to December 31, 2006 and 65% thereafter
(8) Refunding of Project Preparation Advance	700,000	0	Amount due pursuant to Section 2.02 (b) of this Agreement

(9) Unallocated	1,700,000	1,200,000
	<u>=====</u>	<u>=====</u>
TOTAL	<u>18,000,000</u>	<u>8,700,000</u>

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental operating costs arising under the Project on account of Project implementation, including vehicles operation and maintenance, communication, reasonable bank charges on Special Accounts, rental expenses, office maintenance costs, equipment and office supplies, utilities, consumables, travel cost and per diem for Project staff, allowances, and accommodation and salaries of contractual staff of the Project, but excluding salaries of officials of the Borrower's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this Agreement; (b) under category (5) unless the Borrower has furnished to the Association the RGM in form and substance satisfactory to the Association and the Research Grant has been made in the accordance with the provisions of Schedule 4 to this Agreement and the RGM including that each Research Grant shall not exceed an amount of \$20,000 equivalent for an individual scientist and an amount of \$75,000 equivalent for institutions and universities; and (c) under category (6) unless the Borrower has furnished to the Association the FGM in form and substance satisfactory to the Association and the Farmer Grant has been made in the accordance with provisions of Schedule 4 to this Agreement and the FGM including that each Farmer Grant shall not exceed an amount of \$15,000 equivalent.

4. The Association may require withdrawals from the Financing Accounts to be made on the basis of statements of expenditure for expenditures for: (a) works costing less than \$150,000 equivalent per contract; (b) goods costing less than \$200,000 equivalent per contract; (c) services of consulting firms costing less than \$100,000 equivalent per contract; (d) services of individual consultants costing less than \$50,000 equivalent per contract, (e) training; (f) Research Grants and Farmer Grants; and (g)

operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Financing Accounts to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Financing Accounts, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

6. If the Association shall have determined at any time that any amount of the Financing was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Financing Accounts, an amount equivalent to the amount so used.

B. Special Accounts

1. The Borrower may, for the purposes of the Project, open and maintain in Dollars in a commercial bank: (a) a special deposit account (Special Account A) for purposes of depositing the corresponding proceeds of the Credit for Parts A and C.2 of the Project; and (b) a special deposit account (Special Account B) for the purposes of depositing the corresponding proceeds of the Grant for Parts B, C.1 and D of the Project, both on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been duly opened, withdrawals from the Financing Accounts of amounts to be deposited into the respective Special Accounts shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Financing Accounts; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Financing Accounts pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into any Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Financing Accounts for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Financing Agreement.

C. Operating Accounts

1. The Borrower shall open and maintain in Kenya Shilling three Operating Accounts, in one or more commercial banks, on terms and conditions satisfactory to the Association (including appropriate protection against set-off, seizure or attachment).

2. The Borrower shall, in accordance with procedures acceptable to the Association, withdraw from time to time from the respective Special Account and deposit into each Operating Account, an amount required to finance eligible expenditures for a period of 90 days of Project implementation.

3. Payments out of the respective Operating Account shall only be made for eligible expenditures.

4. In the event that the Association, after consultation with the Borrower, determines that any outstanding amount in any Operating Account is not further required to cover payments for Eligible Expenditures, the Borrower, upon notice from the Association shall promptly refund such outstanding amount to the respective Special Account.

**Annex A**

**to**

**SCHEDULE 1**

**Operation of the Special Accounts  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$3,000,000 in respect of Special Account A for Parts A and C.2 of the Project; and an amount equivalent to \$1,500,000 in respect of Special Account B for Parts B, C.1 and D of the Project, to be withdrawn from the Financing Accounts and deposited into the respective Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 in respect of Special Account A; and an amount equivalent to \$750,000 in respect of Special Account B, until: (a) in respect of the Special Account A, the aggregate amount of withdrawals from the Credit Accounts plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A and C.2 of the Project shall be equal to or exceed the equivalent of SDR 6,700,000; and (b) in respect of Special Account B, the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part C.2 of the Project shall be equal to or exceed the equivalent of SDR 2,700,000.

2. Withdrawals of the respective Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the respective Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which in the aggregate do not exceed the respective Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Financing Accounts and deposit into the respective Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Financing Accounts and deposit into the respective Special Account such amount as the Borrower shall have

requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Financing Accounts under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into any Special Account, once the total unwithdrawn amount of the Financing minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Financing Accounts of the remaining unwithdrawn amount of the Financing shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B**

**to**

**SCHEDULE 1**

**Operation of the Special Accounts  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Financing Accounts shall be deposited by the Association into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Accounts shall be withdrawn by the Association from the Financing Accounts under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Financing, the Association shall, on behalf of the Borrower, withdraw from the Financing Accounts and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.



## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Borrower in its efforts to increase agricultural productivity through improvement of the systems supporting the development, dissemination and adoption of modern farming practices and technologies.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### **Part A: Policy and Institutional Reforms**

1. Development and implementation of policy and institutional reforms to strengthen the Borrower's institutional framework necessary to increase its agricultural productivity including enhancement of information and communication infrastructure within the Borrower's Ministries of Agriculture and Livestock and Fisheries Development, through the acquisition of equipment and provision of technical advisory services and training.
2. Provision of support to convene the National Forum to allow stakeholders to communicate their analysis and views on the proposed policy and institutional reforms.
3. Provision of support to the Project Secretariat, the Project Steering Committee, and the District Services Units to facilitate implementation, coordination, monitoring and evaluation of the Project, through provision of technical advisory services, training and operational support, and acquisition of equipment and vehicles.

#### **Part B: Extension System Reform**

1. Development and implementation of a new system and policy of national agricultural extension that: (a) will clarify roles of public, private, and civil society organizations; (b) develop an effective and responsive public extension service; (c) enhance capacity among private extension services providers; and (d) enhance farmers access to information on available agricultural technologies through establishment of an internet data base of main extension and education services providers; and (e) increase performance and sustainability of the extension system, through provision of technical advisory services and training.
2. Development and implementation of pilot extension activities in the Districts which shall test innovative extension delivery systems and methodologies through provision of Farmer Grants to Beneficiaries, and provision of technical advisory services and training for service providers and farmers based on training needs assessments to be carried out in each District.

Part C: Research System Reform

1. Establishment of a national agricultural research system and its supporting institutional framework and funding mechanisms through provision of Research Grants to Researchers, and provision of technical advisory services and training.
2. Provision of support to KARI to: (a) enhance its capacity to develop, extend and up-scale successful technologies; (b) improve its research planning, review and approval process; (c) enhance its research quality reviews capacity; (d) incorporate socio-economic aspects within its research system; (e) establish an adequate information and communication technology infrastructure; and (f) improve its working environment, through rehabilitation of laboratories and roads within KARI's properties, acquisition of equipment and vehicles, provision of Farmer Grants to Beneficiaries, and provision of technical advisory services and training.

Part D: Farmer Empowerment

1. Provision of support for farmer groups including: (a) utilization of communication tools to enhance interaction and flow of information among and between farmers through provision of technical advisory services; and (b) provision of training to farmers in production, management, and natural resources.
2. Establishment of and provision of support to a District Farmers Forum, sub-District farmers fora and a National Farmers Forum to allow farmers to articulate their views on national agricultural policy and Project implementation
3. Implementation of targeted interventions aimed at assisting qualified producer organizations to offer services that; (a) help farmers meet registration requirements; (b) enhance farmers' capacity to meet national and international marketing and certification standards; (c) offer market link networking services; and (d) provision of Farmer Grants to Beneficiaries.

\* \* \*

The Project is expected to be completed by June 30, 2007.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. Procurement of Good and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of the following provisions of this Section.

##### Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Goods and works estimated to cost less than \$150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. International or National Shopping

Goods and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### 3. Direct Contracting

Goods which are of a proprietary nature and costing less than \$30,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

##### 4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing less than \$10,000 equivalent per contract, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Community Participation

Goods and works required for the Research Grants and Farmer Grants shall be procured on the basis of procedures acceptable to the Association as set forth in the FGM and RGM.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (a) works estimated to cost the equivalent of \$150,000 or more; and (b) goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Audit services and services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for small assignments which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

5. Training

Training shall be carried out on the basis of annual work programs which shall have been approved by the Association, and which shall identify: (a) the training envisaged; (b) the personnel to be trained; (c) the selection methods of institutions or individuals conducting such training; (d) the institutions which will conduct the training, if already selected; (e) the duration of proposed training; and (f) the cost estimate of the training.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be

undertaken in accordance with such selection plan as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) All terms of reference irrespective of the contract value shall be subject to the Association's prior review.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Implementation Program**

#### **I. Overall Project Oversight**

1. The Borrower shall maintain at all times during the implementation of the Project, an Inter-Ministerial Coordination Committee which shall be composed of Permanent Secretaries of the Borrower's Ministries of Agriculture, Livestock and Fisheries Development, Cooperatives, Water Resources Management and Development, Environment Natural Resources and Wildlife, Local Government and Lands.
2. The Inter-Ministerial Coordination Committee shall provide overall government support, coordination, and strategic guidance for Project implementation.
3. The Borrower shall maintain at all times during the implementation of the Project, a Project Steering Committee which shall be composed of the Directors of the Borrower's Ministries of Agriculture and Livestock and Fisheries Development; and the Director of KARI, the Director General of National Environment Management Authority; and representatives of the Ministries of Finance, Water Resource Management and Development, Environment Natural Resources and Wildlife, and Cooperative Development and Marketing; and representatives of Kenya National Federation of Agricultural Producers, civil society, nongovernmental organizations and community based organizations.
4. The Project Steering Committee shall provide overall guidance, review and approve Project annual work plan, and review Project monitoring, evaluation, financial, technical, and audit reports.

#### **II. Project Administration and Management**

5. The Borrower shall maintain at all times during the implementation of the Project, a Project Secretariat to oversee the day-to-day implementation of the Project, and recruit thereto, staff having qualifications and experience satisfactory to the Association including a coordinator and specialists in research, extension, farmer and client empowerment, monitoring and evaluation, and finance officer, procurement officer and information and communication officer.
6. Financial management and procurement aspects of the Project shall be carried out by KARI, which shall also assist the Borrower in building financial management and procurement capacity in the Project Secretariat.
7. The Borrower shall establish by September 30, 2004 and thereafter maintain at all times during the implementation of the Project, District Service Units in the Districts to coordinate and implement pilot interventions at the District level, and appoint thereto



staff having qualifications and experience satisfactory to the Association including a coordinator and monitoring and evaluation specialist.

8. The Borrower shall prepare and furnish to the Association a PIP in form and substance satisfactory to the Association setting out details of: (a) Project implementation arrangements; (b) Project procurement, financial management and disbursement arrangements; (c) Project performance indicators; and (d) such other administrative, financial and organizational arrangements as shall be required for the Project.

9. The Borrower shall carry out the Project in accordance with the provisions of the PIP, and shall not, except as the Association shall otherwise agree, amend or waive any provision thereof which, in the opinion of the Association, may adversely and materially affect the implementation of the Project.

10. The Borrower shall establish by September 30, 2004 and thereafter maintain at all times during the implementation of the Project, a District Farmers' Forum in the Districts, which shall be composed of farmer groups from the divisional and village level to provide guidance for the implementation of the Project at the district level and approve Farmer Grants.

#### IV. Procedures and Eligibility Criteria for Farmer Grants

11. The Borrower shall prepare and furnish to the Association a Farmer Grant Manual (FGM) in form and substance satisfactory to the Association setting out details of: (a) Farmer Grants, activities to be financed by Farmer Grants, Beneficiaries and eligibility criteria; (b) arrangements and procedures for preparation, appraisal, approval, implementation and supervision of activities to be financed by Farmer Grants; (c) procurement, financial management and disbursement arrangements; (d) performance indicators; (e) standard formats for Farmer Grant Agreements; and (f) such other administrative, financial and organizational arrangements as shall be required for providing Farmer Grants.

12. The Borrower shall provide Farmer Grants in accordance with procedures and eligibility criteria set forth in the FGM, which shall include, but not be limited to the following:

(a) activities to be financed by Farmer Grants shall include provision of agricultural advisory services and acquisition of improved agricultural technologies;

(b) activities to be financed by Farmer Grants shall be economically, financially and technically viable in accordance with standards set forth in the FGM; and

(c) activities to be financed by Farmer Grants shall be initiated by a Beneficiary and a Farmer Grant shall not exceed the equivalent of \$15,000.

13. A Farmer Grant shall be provided through a Farmer Grant Agreement to be entered into with the Beneficiary, under terms and conditions satisfactory to the Association, which shall include the following:

(a) the Beneficiary's obligation to carry out the activities to be financed by the Farmer Grant in accordance with the FGM, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Farmer Grant;

(b) the requirement that: (i) goods, works and services to be financed from the proceeds of the Farmer Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the eligible activities in accordance with the FGM.

(c) the right of the Project Secretariat to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction financed by the Farmer Grant, the operations thereof and any relevant records and documents;

(d) the right of the Project Secretariat to obtain all information as the Project Secretariat or the Association shall reasonably request regarding the administration, operation and financial conditions of activities to be financed by the Farmer Grant; and

(e) the right of the Project Secretariat to suspend or terminate the right of the Beneficiary to use the proceeds of the Farmer Grant upon the failure by the Beneficiary to perform any of its obligations under the Farmer Grant Agreement.

V. Procedures and Eligibility Criteria for Research Grants

14. The Borrower shall prepare and furnish to the Association a Research Grant Manual (RGM) in form and substance satisfactory to the Association setting out details of: (a) Research\_Grants, research areas and topics to be financed by Research Grants, Researchers and eligibility criteria; (b) arrangements and procedures for preparation, appraisal, approval, carrying out of research; (c) procurement, financial management and disbursement arrangements; (d) performance indicators; (e) standard formats for Research Grant Agreements; and (f) such other administrative, financial and organizational arrangements as shall be required for providing Research Grants.

15. The Borrower shall provide Research Grants in accordance with procedures and eligibility criteria set forth in the RGM, which shall include, but not be limited to the following:

(a) research areas and topics to be financed by Research Grants shall include development and adaptation of new technologies, studying new diseases and policy and marketing topics; and

(b) research areas and topics to be financed by Research Grants shall be initiated by a Researcher and its cost shall not exceed the equivalent of \$20,000 for individual scientists, and \$75,000 for research institutions and universities.

16. A Research Grant shall be provided through a Research Grant Agreement to be entered into with the Beneficiary, under terms and conditions satisfactory to the Association, which shall include the following:

(a) the requirement that: (i) goods, works and services to be financed from the proceeds of the Research Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the eligible activities in accordance with the RGM;

(b) the right of the Project Secretariat and the Association, to receive if the Association shall so request, periodic reports as to the progress of the research;

(c) the right of the Project Secretariat to obtain all information as the Project Secretariat or the Association shall reasonably request regarding the administration, operation and financial conditions of the research to be financed by the Research Grant; and

(d) the right of the Project Secretariat to suspend or terminate the right of the Researcher to use the proceeds of the Research Grant upon the failure by the Researcher to perform any of its obligations under the Research Grant Agreement.

#### VI. Project Monitoring and Evaluation

17. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of Parts A, B, C.1 and D of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2005 and September 30, 2006, reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Parts A, B, C.1 and D of the Project during the period preceding the date of said reports and setting out the measures recommended to ensure the efficient carrying out of Parts A,

B, C.1 and D of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2005 and December 31, 2006, or such later date as the Association shall request, the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Parts A, B, C.1 and D of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

## **SCHEDULE 5**

### **Performance Indicators**

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Association:

1. The national agriculture research system action plan adopted in year two and initiated by year three of Project implementation.
2. Collaborative activities constitute 50% of Research Grants financing to non-KARI research institutes.
3. Inventory of KARI technologies and institutional capabilities carried out and database developed by end of year one, and updated annually thereafter
4. Progressive devolution of KARI resource allocation and accountability for adaptive research programs to centers and center research advisory committees
5. 6 of extension approaches tested and proven cost effective
6. 20 of client fora created and functioning at district and divisional level
7. 40 of producer organizations investing in technology multiplication

## **SCHEDULE 6**

### **Modifications to the General Conditions**

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.”

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“17. “Financing” means, collectively, the Credit and the Grant.”

“18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”