
IDA CREDIT NUMBER 7018-KE

Financing Agreement

(Supporting Access to Finance and Enterprise Recovery Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7018-KE

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between the REPUBLIC OF KENYA (the “Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.
- 1.03. Notwithstanding any provision to the contrary in the General Conditions:
 - (a) each of the Project Implementing Entities (PIEs), as defined in the Appendix to this Agreement, shall be deemed to be a Project Implementing Entity for purposes of the General Conditions, regardless of whether or not it is a party to a Project Agreement; and
 - (b) all references in the General Conditions to obligations of a Project Implementing Entity under a Project Agreement shall be construed as references to obligations of the Project Implementing Entity arising under this Agreement or the relevant Subsidiary Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of eighty-five million nine hundred thousand Euro (EUR 85,900,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (the “Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

- 2.04. The Service Charge is the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.
- 2.05. The Interest Charge is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.
- 2.06. The Payment Dates are June 15 and December 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is Euro.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project and cause the Project to be carried out by the PIEs in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01 The Additional Events of Suspension consist of the following:
 - (a) upon Credit Guarantee Company (CGC) incorporation, any of the documents constituting the CGC Legal and Regulatory Framework has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Credit Guarantee Company to perform any of its obligations under the Agreement; or
 - (b) upon the licensing of the CGC and the license of the CGC or any of the Project Implementing Entities has been withdrawn, revoked, amended or suspended, or its renewal has been withheld, so as to affect materially and adversely, the ability of the CGC or any of the Project Implementing Entities to perform any of its obligations under this Agreement or its respective Subsidiary Agreement.

- 4.02. The Additional Event of Acceleration consists of the following, namely, any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, the Recipient has adopted the Project Operations Manual (“POM”), in accordance with Section I, part B.1(a) and (b) of Schedule 2 to this Agreement, in form and substance satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient’s Representative is the Recipient’s cabinet secretary responsible for finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:
- (a) the Recipient’s address is:
- The National Treasury and Planning
Treasury Building, Harambee Avenue
P.O Box 30007-00100
Nairobi, Kenya; and
- (b) the Recipient’s Electronic Address is: Facsimile: +254 20 330426/ 218475

6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

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

(b) the Association's Electronic Address is:

| | | |
|--------------|----------------|--|
| Telex: | Facsimile: | E-mail: |
| 248423 (MCI) | 1-202-477-6391 | kenyainfo@worldbank.org |

AGREED as of the Signature Date.

REPUBLIC OF KENYA

By

Authorized Representative

Name: _____

Title: _____

Date: _____

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: _____

Title: _____

Date: _____

SCHEDULE 1

Project Description

The objective of the Project is to increase access to financial services and support COVID-19 recovery of Micro, Small and Medium Enterprises (MSMEs) in Kenya.

The Project consists of the following parts:

Part 1. Innovation and liquidity support to MSMEs

Liquidity support to MSMEs through:

- (a) *Window 1* – provision of a line of credit through the Apex PIE to PFIs operating digital channels for the provision of Sub-Loans to Eligible MSMEs.
- (b) *Window 2* – provision of lines of credit through the Apex PIE to Participating Financial Institutions (PFIs) for the provision of Sub-Loans to Eligible MSMEs.

Part 2. De-risking lending to MSMEs

Support for the recovery and growth of MSMEs through:

- (a) provision of financing to capitalize the Credit Guarantee Scheme (CGS) to enable the provision of partial credit guarantees to PFIs on their Sub-Loans to Eligible MSMEs; and
- (b) supporting the establishment, capitalization and operationalization of the Credit Guarantee Company (CGC).

Part 3. Technical Assistance and Project Management

- (a) technical assistance to, (i) The National Treasury in setting up the CGC and market development for financial products and services, (ii) the CBK to develop prudential regulations for the CGC, and (iii) the CGC, including (A) the development of operational policies and procedures; (B) design of technical specifications for information technology infrastructure and an information management system; (C) development of detailed manual for the scheme with clear eligibility criteria for PFIs and MSMEs, assessment methodology and preliminary assessment of PFIs; (D) design, establishment and cascading to PFIs of an Environmental and Social

Management System (ESMS) and a framework for screening climate and disaster risks and tracking and assessing climate mitigation impacts; (E) design and implementation of a monitoring, evaluation and learning system; and (F) capacity building and staff training;

- (b) technical assistance to PFIs to strengthen their governance arrangements, risks management capacity, business models and operational efficiency, integrating gender sensitization, knowledge sharing and trainings on climate change adaptation or mitigation, or information on the impacts of climate risks in financial markets;
- (c) technical assistance to financial sector regulators to strengthen the regulatory environment and enhance the financial infrastructure, including, (i) the implementation of a shared digital services platform for savings and credit co-operative societies (Saccos); (ii) implementation of the informal sector micro-pension scheme by NT; (iii) support for the central securities depository initiative by the CBK; and (iv) gender sensitization; and
- (d) Project management, including coordination, financial management, procurement, communication and outreach, audits, environmental and social risks management, monitoring and evaluation, operation of the Project Implementation Unit (PIU) and Trainings.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The National Treasury and Planning. The Recipient shall designate The National Treasury and Planning (TNT) with overall responsibility for implementation of the Project.
2. Project Implementing Entities.
 - (a) Without prejudice to Part A, paragraph 1 above, the Recipient shall cause the Apex PIE to implement Part 1 and as relevant, the CGC, upon its establishment and operationalization, Part 2(a) of the Project.
 - (b) The Recipient shall cause the Apex PIE to establish and/or maintain, at all times during the implementation of the Project, adequate resources, facilitation, staff and functions as satisfactory to the Association for purposes of implementing Part 1 of the Project as may be further detailed in the Project Operations Manual.
3. Project Coordination Committee.
 - (a) The Recipient shall maintain throughout the implementation of the Project, a national Project Coordination Committee (PCC) to be chaired by the principal secretary (The National Treasury), and comprising among others the governor of the CBK, principal secretary Ministry of Industry, Trade and Enterprise Development and the chief executive officer of Sacco Regulatory Authority or such other persons as may be agreed between the Association and the Recipient and as further detailed in the POM - with mandate, powers and resources acceptable to the Association.
 - (b) The PCC shall be responsible for, inter alia; (a) providing strategic and policy guidance for Project implementation, and (b) resolving any Project coordination and implementation bottlenecks that may arise.
 - (c) The PCC shall meet at least every six months to, *inter alia*, review the Project results, discuss any key issues arising and agree on key milestones over the following six months.

4. Project Implementation Unit.

- (a) The Recipient shall maintain, throughout the implementation of the Project, a Project Implementation Unit (PIU) within the NT, with resources and composed of key staff, with qualifications, experience and under terms of reference acceptable to the Association, including a Project coordinator, a credit guarantee specialist, a financial intermediary financing specialist, a procurement specialist, a Project accountant, a monitoring and evaluation specialist, an environmental and social management specialist, and such other specialists performing such functions as may be further detailed in the POM.
- (b) The PIU shall be responsible for overseeing the day-to-day implementation, management, supervision and overall coordination of the Project, including, (i) acting as a first stage grievance committee for all environmental and social related complaints, (ii) serving as the secretariat to the Project Coordination Committee; (iii) acting as the main focal point for interaction with the PIEs and other stakeholders on behalf of the Project, and (iv) monitoring progress of the Project.

5. Credit Guarantee Company (CGC).

- (a) Upon the CGC's financial and operational viability, regulatory framework and institutional set-up being deemed adequate by the Recipient and the Association in accordance with Schedule 4 of this Agreement, the Recipient shall ensure that the CGC, is maintained, throughout Project implementation, with a structure, functions, responsibilities, and staffing acceptable to the Association, and in accordance with the CGC Legal and Regulatory Framework.
- (b) Upon the establishment of the CGC, the Recipient may allocate part of the undisbursed funds under Category (3) to be used for the provision of partial credit guarantees under Part 2(a) of the Project.

B. Project Operations Manual.

1. The Recipient shall:

- (a) prepare a Project operations manual, in form and substance satisfactory to the Association, containing detailed arrangements and procedures for implementation of the Project including *inter alia*: (i) implementation arrangements including delineation of roles and responsibilities of various

entities, institutions and agencies involved in Project implementation, their eligibility to participate in the Project and their coordination and inter-relationships; (ii) disbursement arrangements (including flow of funds to PIEs and the PFIs), reporting requirements, internal control systems and financial management procedures and audit procedures; (iii) the procurement procedures, standard procurement documentation, contracts administration and management; (iv) measures to mitigate fraud and corruption as well as other integrity and fiduciary risks; (v) environmental and social risk management arrangements including measures to address risk of gender based violence and sexual exploitation of minors as well as operation of grievance redress mechanism; (vi) procedures for preparing and reviewing a consolidated annual work plan and budget for each Fiscal Year; (vii) monitoring and evaluation arrangements, reporting and communication, including performance indicators; (viii) arrangements to address community health, safety and security risks and impacts - including measures to avoid or minimize the transmission of communicable disease such as COVID -19 and to address other impacts on the Project of COVID-19 pandemic; (ix) criteria for selection of the Apex PIE and PFIs; (x) eligibility criteria for selection of MSMEs under Part 1 of the Project; (xi) eligibility and targeting criteria for the provision of partial credit guarantees under Part 2(a) of the Project; (xi) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

- (b) furnish to, and exchange views with, the Association on such manual promptly upon its preparation; thereafter adopt such manual as shall have been approved by the Association (“Project Operations Manual”/“POM”); and thereafter implement the Project and cause the Project to be implemented in accordance with the POM.
 - (c) not amend, suspend, abrogate, repeal or waive any provisions of the POM without the prior written agreement of the Association.
2. In the event of any conflict between the provisions of: (a) the POM; and (b) those of this Agreement, the provisions of this Agreement shall prevail.

C. Line of Credit Facilities

General

1. For the purposes of carrying out Part 1 of the Project, the Recipient shall:
- (a) select and ensure the selection of the Apex PIE and PFIs to participate in the line of credit facility under Part 1 of the Project in accordance with eligibility criteria acceptable to the Association and set forth in the POM;

- (b) ensure that the PFIs select the MSME borrowers to receive Sub-Loans in accordance with eligibility criteria acceptable to the Association and set forth in the POM;
 - (c) deposit with the selected Apex PIE part of the proceeds of the Financing allocated to Category (1) under a Subsidiary Financing Agreement to be entered into between the Recipient through NT and the Apex PIE, under terms and conditions acceptable to the Association and set forth in the POM, including, inter alia, the terms and conditions referred to in paragraph 4 of this Part C;
 - (d) monitor the overall execution of Part 1 of the Project in accordance with the provisions of this Agreement, ensure that the Apex PIE performs in accordance with the provisions of the Subsidiary Financing Agreement, and not take or permit to be taken any action which would prevent or interfere with such performance; and
 - (e) exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Recipient and Association and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such agreement or any provision thereof.
2. The Recipient shall ensure that proceeds received from the repayments made by Eligible MSMEs under Sub-Loans during implementation of the Project and prior to the Closing Date are utilized only for the prescribed Project activities under Part 1 of the Project through the maintenance of the lines of credit under Part 1 in accordance with the criteria set out in the POM.
3. Without prejudice to paragraph 2 above, the Recipient shall ensure that all repayments made by Eligible MSMEs under Sub-Loans financed out of the proceeds of the Financing are used for purposes related to the Project and/or that ensure sustainability in its MSME and financial sectors interventions.

Terms and Conditions of the Subsidiary Financing Agreement

4. The Subsidiary Financing Agreement shall contain provisions pursuant to which the Apex PIE shall undertake to (and cause the respective PFI to) comply with the relevant provisions of this paragraph 4:
- (a) follow sound commercial practices in making Sub-Loans to Eligible MSMEs and that such loans will at all times be underwritten, priced,

signed, documented, monitored and serviced in accordance with the relevant PFI's credit guidelines and using its standard documentation;

- (b)
 - (i) make Sub-Loans to Eligible MSMEs on the terms and conditions set forth in the POM, including, without limitation, the terms and conditions set forth in paragraph 6 of this Part C;
 - (ii) exercise its rights in relation to each such Sub-Loan in such manner as to protect its interests and the interests of the Recipient and the Association, comply with its obligations under its respective Subsidiary Financing Agreement, and achieve the purposes of the Project;
 - (iii) not assign, amend, abrogate or waive any of its Sub-Loan agreements, or any provision thereof, without the prior approval of the Recipient;
 - (iv) appraise and approve Sub-projects and supervise, monitor and report on the carrying out by the Eligible MSMEs of Sub-projects, in accordance with the POM;
 - (v) screen proposed Sub-projects and ensure that each beneficiary MSME prepares and carries out the Applicable Environmental and Social Requirements for each Sub-project in accordance with the NT ESMS and respective PFI ESMS, and verify (through its own staff, outside experts, or existing environmental and social institutions) before approving a Sub-project that the Sub-project meets, and thereafter ensure that it remains in compliance with, the Applicable Environmental and Social Requirements and the provisions of the NT ESMS and respective PFI ESMS; and
 - (vi) require each Eligible MSME applying for a Sub-Loan to furnish, upon request, evidence satisfactory to the Association showing that the Sub-project in respect of which the application has been prepared is in compliance with the Applicable Environmental and Social Requirements and the NT ESMS and respective PFI ESMS;
- (c)
 - (i) exchange views with and furnish all such information to the Association or the Recipient, as may be reasonably requested by the Association and Recipient, with regard to the progress of its activities under Part 1 of the Project, the performance of its obligations under the Subsidiary Financing Agreement, and other matters relating to the purposes of the Project;

- (ii) prepare and submit to the Recipient monthly reports on Sub-Loan disbursements and repayments, and annual reports on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-Loan applications, including reports on the status of compliance with the social and environmental requirements; and
 - (iii) promptly inform the Association and the Recipient of any condition which interferes or threatens to interfere with the progress of its activities under the Subsidiary Financing Agreement;
 - (d)
 - (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and
 - (ii) furnish to the Association such information concerning said records and accounts as the Association shall from time-to-time reasonably request.
 - (e) except as the Association and Recipient may otherwise agree, open and thereafter maintain on its books, in accordance with its normal financial practices and on conditions satisfactory to the Association, separate accounts to which it shall credit, as the case may be, each payment of interest or other charges on, or repayment of principal payments under, any Sub-Loan; and
 - (f) assume the credit risk of each on-lending to the relevant PFI.
5. Except as the Association and Recipient may otherwise agree, the maximum tenor of the Financing availed to the Apex PIE shall be three (3) years, and a grace period of up to six months may be offered reflecting the debt amortization profile of Sub-Loans granted to final borrowers.

Terms and Conditions of Sub-Loans

6. The principal amount of each Sub-Loan shall be made on financing terms and conditions, including those relating to, currency denomination, interest rate and other charges determined in accordance with the PFI's investment and lending policies and practices and in accordance with requirements outlined in the POM.
7. Sub-Loans shall be made on terms whereby the PFI shall obtain, by written contract with the Eligible MSME or by other appropriate legal means, rights

adequate to protect its interests and those of the Association and the Recipient, including the right to:

- (a) require the Eligible MSME to carry out and operate the facilities financed under the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards, the provisions of Anti-Corruption Guidelines, and to maintain adequate records;
- (b) without limitation to the generality of the provisions of the preceding paragraph require the beneficiary Eligible MSME to carry out and operate the Sub-project with due regard to applicable social impact, ecological, environmental and pollution control standards and in accordance with the provisions of the POM and the NT ESMS;
- (c) for Sub-projects which need an environmental and social risks assessment in accordance with the NT ESMS, require the Eligible MSME to carry out such assessment in a timely manner in accordance with the POM and the NT ESMS;
- (d) inspect, by itself or jointly with representatives of the Recipient and the Association, if the Recipient or the Association shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;
- (e) require that, in the case of a Sub-Loan made to finance investment capital:
 - (i) the Eligible MSME shall take out and maintain with responsible insurers such insurance if available at reasonable cost, against such risks and in such amounts, as shall be available on the market and consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Eligible MSME to replace or repair such goods;
- (f) obtain all such information as the Association or the Recipient shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Eligible MSME and to the benefits to be derived from the Sub-project; and
- (g) suspend or terminate the right of the beneficiary MSME to the use of the proceeds of the Sub-Loan upon failure by such MSME to perform its obligations under its Sub-Loan agreement.

D. Partial Credit Guarantees

1. The Recipient shall and cause Part 2(a) of the Project to be implemented in accordance with the POM.
2. For purposes of implementation of and provision of partial credit guarantees under Part 2(a), the Recipient shall (and once duly established and operationalized in a manner satisfactory to the Association, the CGC shall):
 - (a) enter into a Participation Agreement with each PFI, in form and substance satisfactory to the Recipient and the Association, and exercise its rights under each such Participation Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purpose of the Financing;
 - (b) ensure that Part 2(a) of the Project is implemented in accordance with the provisions of the POM and the relevant Participation Agreements;
 - (c) ensure that each Participation Agreement provides that each PFI shall follow sound commercial practices in making loans to beneficiaries in the MSME sector and that such loans will at all times be underwritten, priced, signed, documented, monitored and serviced in accordance with the relevant PFI's credit guidelines and using its standard documentation;
 - (d) ensure that the policies, procedures and requirements set out in the NT ESMS and the PFI's ESMS, are applied by it; and
 - (e) carry out and/or ensure the periodic supervision of each PFI.
3. The Recipient (and the CGC as relevant) shall perform all its obligations under the Participation Agreements, and not take or permit to be taken any action which would prevent or interfere with the performance of a PFI of its obligations under the respective Participation Agreement.
4. The Recipient (and the CGC as relevant) shall exercise its rights under the Participation Agreement in such a manner as to protect the interests of the Association and to accomplish the purpose of the Financing.

E. Subsidiary Agreement with CGC

1. Upon the establishment of the CGC in a manner satisfactory to the Recipient and Association in accordance with the PBCs under Schedule 4 of this Agreement, and in order to facilitate the carrying out of Part 2(a) of the Project, the Recipient shall make part of the Financing as undisbursed under Category (2), available to the

CGC under a subsidiary agreement (the “CGC Subsidiary Agreement”) to be entered into between the Recipient and the CGC under terms and conditions approved by the Association.

2. The Recipient shall exercise its rights under the CGC Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the CGC Subsidiary Agreement or any of its provisions.

F. CGC Legal and Regulatory Framework

1. The Recipient shall cause the CGC to comply with the provisions of the CGC Legal and Regulatory Framework at all times during the implementation of the Project.
2. Without limitation to the provision of paragraph (1) above, the Recipient shall not abrogate, amend, repeal, suspend or waive - or allow the CGC to abrogate, amend, repeal, suspend or waive – the CGC memorandum and articles of association, without prior approval in writing by the Association.

G. Environmental and Social Standards.

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, the NT Environmental and Social Management System (“NT ESMS”) and the Applicable Environmental and Social Requirements.
2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
 - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.

3. The Recipient shall not amend, abrogate or waive, or permit to be amended, abrogated or waived, the NT ESMS, unless the Association has provided its prior no-objection thereof in writing.
4. Without limitation to the foregoing, the Recipient shall ensure that each PIE and PFI shall adopt and/or maintain an Environmental and Social Management System (ESMS), in form and substance satisfactory to the Association, and thereafter apply the policies, procedures and requirements set out in the ESMS, all in accordance with the provisions of the NT ESMS.
5. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall and shall cause the PIEs to regularly collect and compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with environmental and social risk management requirements set forth in this Agreement, providing details on measures taken, conditions, if any, which interfere or threaten to interfere with the implementation of the Applicable Environmental and Social Requirements, the NT ESMS and ESMS; and remedial measures taken or required to be taken to address such conditions.
6. For purposes of managing the environmental and social risks and impacts associated with the implementation of the Project, the Recipient shall ensure, and cause the PIEs to ensure, that:
 - (e) Financing proceeds are provided only to PFIs for Sub-Loans that meet the criteria detailed in the POM and are not utilized for financing Sub-Loans that support excluded activities as set out in the NT ESMS;
 - (f) all Sub-Loans financed under Part 1 of the Project meet the Applicable Environmental and Social Requirements through adequate implementation of the NT ESMS and respective PIE or PFI ESMS;
 - (g) all PIEs and PFIs fulfill their respective obligations with regard to carrying out environmental and social due diligence and monitoring of Sub-Loans in accordance with the NT ESMS and respective PIE or PFI ESMS; and
 - (h) all PFIs manage the working conditions of their workforce in accordance with relevant aspects of the ESS 2 on Labor and Working Conditions.
7. Prior to the carrying out of any activities under Part 1 and 2 of the Project, the Recipient shall adopt and publish an ESMS (NT ESMS) acceptable to the Association.
8. In case of any inconsistencies between any of the ESCP, the NT ESMS or the respective PIE or PFI ESMS and the provisions of this Agreement, the provisions of this Agreement shall prevail.

9. The Recipient shall, and shall cause each of the PIEs to, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.

H. Annual Work Plans.

1. The Recipient shall prepare and furnish to the Association not later than February 28 of each Fiscal Year during the implementation of the Project (beginning in calendar year 2022), a consolidated work plan and budget containing *inter alia*: (i) all activities proposed to be implemented under the Project during the following Fiscal Year; and (ii) a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts and sources of financing therefor and disbursement schedule.
2. The Recipient shall afford the Association a reasonable opportunity to exchange views with the Recipient on each such proposed annual work plan and budget and shall thereafter ensure that the Project is implemented with due diligence during said following Fiscal Year in accordance with such work plan and budget as shall have been approved by the Association ("Annual Work Plan").
3. The Recipient shall not make or allow to be made any changes to the approved Annual Work Plan without prior approval in writing by the Association.
4. Without limitation on the provisions of Part H of this Section, the Recipient shall prepare and furnish to the Association the first proposed Annual Work Plan and required under the Project not later than thirty (30) days after the Effective Date.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports.

1. The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.
2. No later than thirty (30) months after the Effective Date, the Recipient shall, in conjunction with the Association, carry out a mid-term review of the Project (the "Mid-term Review"), covering the progress achieved in the implementation of the Project. To this end, the Recipient shall prepare - under terms of reference satisfactory to the Association - and furnish to the Association not less than three (3) months prior to the beginning of the mid-term review, a report integrating the results of the Project's monitoring and evaluation activities, on the progress achieved in the carrying out of the Project during the period preceding the date of

such report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective of the Project during the period following such date. Following the mid-term review, the Recipient shall act promptly and diligently in order to take, or cause to be taken, measures recommended to ensure the efficient completion of the Project and the achievement of the objective as well as any corrective action deemed necessary by the Association to remedy any shortcoming noted in the carrying out of the Project in furtherance of the objective of the Project.

B. Verification of Performance Based Conditions

1. Without limitation on the provisions of Part A of this Section II, the Recipient shall prior to each payment for eligible expenditures under Category (3) carry out in accordance with the Verification Protocol, an assessment to determine the extent to which the PBC in respect of which payment is requested has been achieved. To this end, the Recipient shall:
 - (a) vest in the Office of the Auditor General (OAG) the responsibility of undertaking the verification of compliance with the PBCs which are set forth in the table in Schedule 4 to this Agreement;
 - (b) cause the OAG to, not later than thirty (30) days, after the verification of compliance with the PBC has been completed, prepare and furnish to the Recipient and the Association, a report on the results of said verification of such scope and in such detail as the Association shall reasonably request.

C. Monitoring and Evaluation Arrangements

1. The Recipient shall within ninety (90) days after the Effective Date develop and implement throughout the Project, a monitoring and evaluation strategy (M&E Strategy), such M&E Strategy to be in form and substance satisfactory to the Association.
2. The Recipient shall within one hundred twenty (120) days after the Effective Date, hire and maintain throughout Project implementation, an independent monitoring agent holding such qualifications and under terms of reference acceptable to the Association, to monitor the flow and use of Project funds and perform such other functions as may be further stipulated in the POM.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

| Category | Amount of the Financing Allocated (expressed in EUR) | Percentage of Expenditures to be Financed (inclusive of Taxes) |
|--|---|---|
| (1) Lines of Credit under Part 1 of the Project | 47,245,000 | 100% |
| (2) Capitalization of the CGS and partial credit guarantees under Part 2(a) of the Project | 8,590,000 | 100% |
| (3) PBCs, Eligible expenditures under Part 2(b) of the Project | 17,180,000 | 100% |
| (4) Goods, consulting services, Training and Operating Costs under Part 3 of the Project | 12,885,000 | 100% |
| TOTAL AMOUNT | 85,900,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed €2,577,000 may be made for payments made prior to this date up to twelve (12) months prior to the Signature Date, for Eligible Expenditures under Category (4); or
 - (b) under Category 1, unless and until the Recipient has:
 - (i) the Recipient has identified and selected an Apex PIE satisfactory to the Association, for the implementation of Part 1 of the Project;
 - (ii) executed and submitted to the Association a Subsidiary Financing Agreement with the Apex PIE, such Subsidiary Financing Agreement to be in form and substance satisfactory to the Association;
 - (iii) prepared, adopted and published, (A) Gender-based Violence Action Plan, (B) MSMEs environmental and social training toolkit and training manuals, and (C) Labor Management Procedures, such instruments to be in form and substance satisfactory to the Association; or
 - (c) under Categories 1 and 2, unless and until the Recipient has:
 - (i) prepared, adopted and published the NT ESMS, such NT ESMS to be satisfactory to the Association;
 - (ii) prepared and conducted a Social Assessment to identify barriers to entry and access to finance particularly those related to discrimination, bias, literacy and numeracy for disadvantaged groups and incorporated the results of the Social Assessment in the NT ESMS, the Stakeholder Engagement Plan and the grievance redress mechanism; or
 - (d) under Category 3, unless and until the Recipient has furnished evidence satisfactory to the Association, including verification reports from the OAG, that the PBCs set forth in Schedule 4 for which payment is requested have been met and verified in accordance with the Verification Protocol.
2. The Closing Date is December 31, 2026.

SCHEDULE 3

Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|--|--|
| On each June 15 and December 15: | |
| commencing December 15, 2026 to and including June 15, 2046 | 1.65% |
| commencing December 15, 2046 to and including June 15, 2051 | 3.40% |

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

SCHEDULE 4

Performance-Based Conditions for Category (3) of the Disbursement Table

| Performance Based Condition | Action to be Completed | PBC Amount Allocated (expressed in EUR) | Total Amount of the Financing Allocated (expressed in EUR) |
|---|--|--|---|
| PBC #1 Establishment of the CGC | 1.1 - CGC has been duly incorporated and has received the relevant licenses, permits, and approvals required to start operation. | 3,436,000 | 8,590,000 |
| | 1.2 - The CGC Board has been duly constituted in accordance with Recipient's relevant laws and policies and in a manner satisfactory to the Association. | 2,577,000 | |
| | 1.3 - The Chief Executive Officer, Chief Finance Office and the Chief Operations Officer of the CGC have been duly hired by the CGC Board in accordance with the relevant laws and policies governing the CGC and in a manner satisfactory to the Association. | 2,577,000 | |
| PBC #2 Operational readiness | CGC has developed and adopted key operational policies, manuals and systems in form and substance satisfactory to the Association, including a CGC Manual, CGC operational procedures, an Environmental and Social Management System - that is aligned with the Environmental and Social Standards, and the CGC Management has hired key operational staff to include risk, credit, finance, and environmental and social officers, all in a manner satisfactory to the Association. | 8,590,000 | 8,590,000 |

APPENDIX

Section I. Definitions

1. “Annual Work Plan” means the work plan and budget prepared annually by the Recipient and approved by the Association in accordance with Section I.H of Schedule 2 to this Agreement; and “Annual Work Plans” means more than one Annual Work Plan.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Apex PIE” means the financial intermediary selected as the wholesale institution under Part 1 of the Project in accordance with the eligibility criteria set out in the POM for purposes of availing lines of credit to Participating Financial Institutions.
4. “Applicable Environmental and Social Requirements” means the technical requirements applicable to the Sub-projects using the proceeds of the Financing supported under Part 1 and 2(a) of the Project and which are comprised of: (a) applicable environmental and social national and local laws and regulations of the Recipient, which may include national and local laws, county or municipal by-laws; and (b) any excluded activities set forth in the NT ESMS.
5. “Basis Adjustment to the Interest Charge” means the Association’s standard basis adjustment to the Interest Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association and expressed either as a positive or negative percentage per annum.
6. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association and expressed either as a positive or negative percentage per annum.
7. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

8. “Central Bank of Kenya” or the acronym “CBK” means the Recipient’s central bank established and operating pursuant to the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya.
9. “CGC Board” means the board of directors of the CGC.
10. “CGC Legal and Regulatory Framework” means the Recipient’s laws or regulations issued to establish , operationalize and govern the functioning of the CGC, any prudential guidelines issued on the functioning of the CGC, licenses issued to CGC for its operations and the CGC memorandum and articles of association.
11. “CGC Manual” means the manual for the CGC developed to guide the operations of the CGC.
12. “CGC Subsidiary Agreement” means the agreement to be entered into between the Recipient and the CGC for purposes of making part of the Financing as undisbursed under Category (3) available to the CGC under terms and conditions approved by the Association and as stated under Section I, part E of Schedule 2 to this Agreement.
13. “COVID-19” means the coronavirus disease caused by the 2019 novel coronavirus (SARS-CoV-2).
14. “Credit Guarantee Company” and the acronym “CGC” means the guarantee company proposed to be set up under Part 2(b) of the Project and duly licensed to operate in the Republic of Kenya.
15. “Credit Guarantee Scheme” or “CGS” means the scheme established pursuant to Regulation 4 of the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020 for purposes of partially guaranteeing credit advanced to eligible enterprises.
16. “Eligible MSMEs” means micro, small and medium enterprises, including formal and informal micro and small enterprises under Part 1, window 2, that meet the eligibility criteria set out in the Project Operations Manual and are the final beneficiaries of the lines of credit under Part 1 of the Project, and “Eligible MSME” means each such final beneficiary of the lines of credit under Part
17. “Environmental and Social Commitment Plan” and the acronym “ESCP” mean the environmental and social commitment plan for the Project, dated July 2021, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures,

institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.

18. “Environmental and Social Management System” and the acronym “ESMS” means a document, in form and substance satisfactory to the Association, to be developed and adopted by a Participating Financial Institution and the Apex PIE in accordance with the NT ESMS that provides for the screening of MSME Sub-Loan applications under the Project, managing associated environmental and social risks and requiring the Eligible MSMEs to comply with the social and environmental requirements arising from the application of the NT ESMS and the ESMS, as said document may be modified from time to time with the prior written no-objection of the Association, and such term includes any schedules or annexes to such document.
19. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association at <https://projects.worldbank.org/en/projects-operations/environmental-and-social-framework/brief/environmental-and-social-standards>.
20. “Fiscal Year” and the acronym “FY” mean the twelve-month period starting July 1 and ending June 30 of the following year.
21. “Gender-based Violence Action Plan” means the document to be prepared and adopted by the Recipient, satisfactory to the Associated and disclosed by the Recipient setting out measures for avoiding, assessing and responding to any gender-based violence or sexual exploitation and abuse under the Project.
22. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021).

23. “Labor Management Procedures” means the procedures to be prepared, adopted and disclosed by the Recipient setting out the way in which project workers will be managed, in accordance with the requirements of national law and ESS 2.
24. “M&E Strategy” means the monitoring and evaluation strategy developed under Section II, part C.1 of Schedule 2 to this Agreement.
25. “Ministry of Industry, Trade and Enterprise Development” means the Recipient’s Ministry responsible for trade and enterprise development, or its successor thereto as acceptable to the Association.
26. “MSME” means a micro, small and medium enterprise duly operating in the Republic of Kenya; and MSMEs refers to all such enterprises collectively.
27. “NT Environmental and Social Management System” and the acronym “NT ESMS” each means the document to be prepared and adopted by the Recipient, satisfactory to the Associated, disclosed in-country, and the Bank’s website, setting out the principles, rules, guidelines and procedures to screen and assess the potential adverse environmental and social risks and impacts (including health and safety issues) of Project activities, adopt measures to avoid, reduce, mitigate or offset environmental and social adverse risks and impacts, procedural, budget and institutional arrangements and actions needed to implement these measures, and information on the agency or agencies responsible for addressing the Projects’ risks and impacts; as well as for the preparation of environmental and social management plans, as such framework may be amended by the Recipient from time to time, with the prior written agreement of the Association.
28. “Operating Costs” means the incremental expenses incurred on account of Project implementation based on the Annual Work Plan and Budget, and consisting of, audit fees, expenditures for office supplies, vehicle operation and maintenance, maintenance of equipment, bank fees, communication and insurance costs, internet service charges, media and advertising expenses, office administration costs, utilities, rental, consumables, accommodation, travel and per diem, and salaries of Project staff, but excluding the salaries, meeting allowances, other sitting allowances, salary top ups and any honorarium of the Recipient’s civil servants.
29. “Partial Credit Guarantee” means in respect of each Participation Agreement, the partial guarantee facility under Part 2(a) of the Project issued for the benefit of PFIs to provide credit enhancement to Eligible MSMEs.
30. “Participating Financial Institution” and the acronym “PFI” each means a microfinance bank, Savings and Credit Co-operative Organization, commercial bank or such other regulated retail lending financial institution established and operating pursuant to the laws of the Recipient, that meet the eligibility criteria set out in the Project Operations Manual and as a result has received or is proposed to receive financing under Part 1 of the Project for the purpose of providing Sub-

Loans to Eligible MSMEs or receive a Partial Credit Guarantee under Part 2(a) of the Project; and the terms “Participating Financial Institutions” or “PFIs” means, collectively, all Participating Financial Institutions.

31. “Participation Agreement” means each agreement to be entered into between the Recipient (and once duly established and operationalized in a manner satisfactory to the Association, the CGC), on the one hand and each PFI for purposes of implementation of and provision of partial credit guarantees under Part 2(a) of the Project.
32. “Performance-Based Condition” or “PBC” means with respect of Category (3), each of the conditions related to said Category as set forth in the table in Schedule 4 to this Agreement, and “Performance-Based Conditions” or “PBCs” means, collectively, more than one such Performance Based Condition or PBC.
33. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
34. “Project Coordination Committee” means the committee referred to in Section I, part A.3 of Schedule 2 to this Agreement.
35. “Project Implementation Unit” means the unit referred to in Section I, part A.4 of Schedule 2 to this Agreement.
36. “Project Implementing Entity” or “PIE” means the apex financial intermediary selected under Part 1 of the Project, or the CGC upon its establishment and operationalization; and the terms “Project Implementing Entities” or “PIEs” means, collectively, all such implementing entities.
37. “Project Operations Manual” or “POM” means the manual containing detailed arrangements and procedures for implementation of the Project as set out under Section I, part B.1 of Schedule 2 to this Agreement.
38. “Sacco Societies Regulatory Authority” means the authority established under section 4 of the Sacco Societies Act, no. 14 of 2008, Laws of Kenya.
39. “Sacco” means a Savings and Credit Cooperative Society duly licensed to operate in the Republic of Kenya; and Saccos means all such savings and credit cooperatives.
40. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
41. “Social Assessment” means the assessment to be conducted by the Recipient in a manner satisfactory to the Association to identify barriers to entry particularly

those related to discrimination, bias, literacy and numeracy for disadvantaged groups including historically underserved traditional local communities and vulnerable and marginalized groups, and determine if there are technically feasible measures that can be implemented to facilitate access by disadvantaged groups and eliminate discrimination.

42. “Stakeholder Engagement Plan” means the document to prepared and adopted by the Recipient, satisfactory to the Associated, disclosed in-country, and the Bank’s website, setting out the principles, rules, guidelines, procedures and timing of engagement with stakeholders throughout the life cycle of the Project as agreed between Association and the Recipient, and also describing the range and timing of information to be communicated to project-affected parties and other interested parties, as well as the type of information to be sought from them, as such document may be amended by the Recipient from time to time, with the prior written agreement of the Association.
43. “Sub-Loan” means a loan made or proposed to be made by a PFI to an Eligible MSME out of the proceeds of the Financing allocated from time to time to Category (1).
44. “Sub-project” means a specific development project under Parts 1 of the Project, which is carried out or proposed to be carried out by a beneficiary Eligible MSME, in whole or in part through the utilization of the proceeds of a Sub-Loan.
45. “Subsidiary Agreements” means collectively the Subsidiary Financing Agreements and the CGC Subsidiary Agreement.
46. “Subsidiary Financing Agreement” means the agreement to be entered into between the Recipient through NT and the Apex PIE pursuant to which the Recipient shall avail to the selected Apex PIE part of the proceeds of the Financing, under terms and conditions acceptable to the Association.
47. “The National Treasury and Planning” and the acronym “NT” means the Recipient’s ministry responsible for finance, or its successor thereto as acceptable to the Association.
48. “Training” means the costs associated with training, workshops and study tours provided under the Project, based on the Annual Work Plan approved by the Association pursuant to Section I.E.3 of Schedule 2 to this Agreement consisting of reasonable expenditures (other than expenditures for consultants’ services) for: (i) travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses.
49. “Verification Protocol” means Recipient’s protocol detailing the means by which the fulfilment of the PBCs will be verified under the Project, and which is included in the Project Operations Manual.