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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

: _____ : _____ Deidre McGenra	: _____ : _____ Hubert Boirard
+39 06 5459 2374 : gb_office@ifad.org :	+39 06 5459 2298 : h.boirard@ifad.org :

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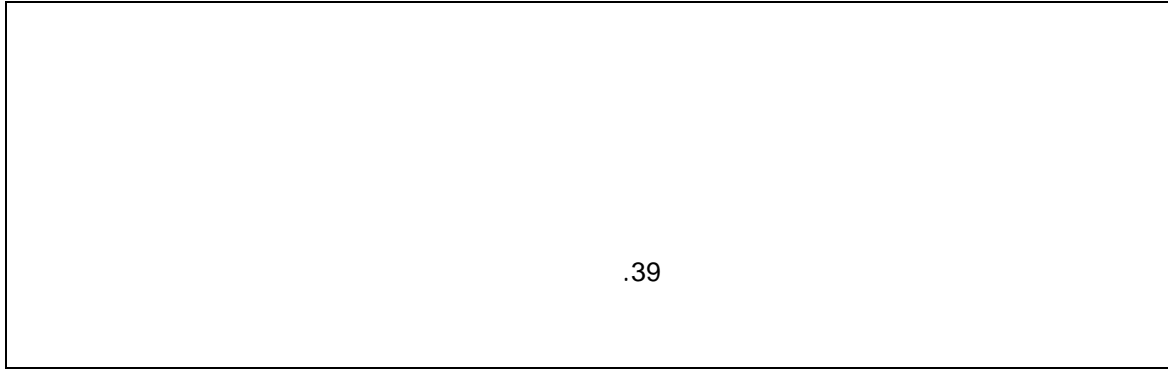
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Negotiated financing agreement: "Smallholder Commercialization Programme under the Global Agriculture Food Security Programme (SCP-GAFSP)"

(Negotiations concluded on 5 May 2011)

FINANCING AGREEMENT

Grant Number: _____

Programme Title: Smallholder Commercialisation Programme under the Global Agriculture Food Security Program (the "SCP-GAFSP" or "the Programme")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

Republic of Sierra Leone (the "Recipient")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Preamble

1. The Steering Committee of the Global Agriculture and Food Security Program (GAFSP) Trust Fund, approved in 2010 a USD 50 million proposal presented by Recipient in support of components 1 (Smallholder agriculture commercialisation: production intensification, diversification, value addition and marketing), 2 (Small scale irrigation development) and 6 (SCP Planning, Coordination, Monitoring and Evaluation) of the Recipient's Smallholder Commercialisation Programme (SCP).

2. The International Bank for Reconstruction Development (IBRD) –in its capacity as trustee of the GAFSP Trust Fund- and IFAD entered into a Transfer Agreement on November 2010. According to the provision of the Transfer Agreement, the IBRD shall transfer to IFAD the allocated funds approved by the GAFSP Steering Committee for the implementation of the Programme.

3. The implementation of the activities under this Financing Agreement is subject to the transfer of funds by the IBRD.

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is USD 50 million.
2. There shall be three Programme Accounts for the benefit of the SCP-GAFSP Management Unit in commercial banks acceptable to the Fund: (a) a Programme Account in USD for payments of eligible expenditures incurred under all categories of expenditures under the Financing; (b) a Programme Account in Leones for daily Programme operations; and (c) a Programme Counterpart Account in Leones to receive the Recipient's contribution for expenditures not subject to tax exemption.
3. The Recipient shall provide counterpart financing for the Programme in the amount of approximately USD 4.5 million.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture, Forestry and Food Security (MAFFS).
2. The following are designated as additional Programme Parties: the Food and Agriculture Organization (FAO), the SCP Coordination Team, the SCP-GAFSP Management Unit, the National Coordination Unit of the Rehabilitation and Community-based Poverty Reduction Project (RCPRP) and the Rural Finance and Community Improvement Project (RFCIP) and service providers.
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Grant will be administered and the Programme supervised by IFAD.

Section E

1. The following is designated as additional ground for suspension of this Agreement:

The transfers from the IBRD under the IFAD-IBRD Transfer Agreement are suspended, cancelled or do not reach IFAD on a reasonable period of time after the submission of the Funds Transfer Request from IFAD to the IBRD.

2. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The transfer of funds specified in the first Funds Transfer Request has been received by the Fund.
 - (b) The Programme Accounts shall have been duly opened.
 - (c) The recruitment of the SCP Coordinator and the SCP-GAFSP Manager, M&E Officer and Financial Controller shall be completed.
 - (d) A Project Implementation Manual (PIM) shall be drafted and shared with the Fund.

3. This Agreement is subject to ratification by the Recipient.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Minister of Finance and
Economic Development
Ministerial Building
George Street
Freetown, Sierra Leone

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

For the Fund

For the Recipient

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme has identified four core target groups: (a) smallholder farmers; (b) women, especially women headed households; (c) youth, particularly unemployed youth; and (d) micro/small entrepreneurs. Moreover, the Programme shall also benefit associations of disable (amputee, war wounded, etc.).
2. *Goal.* The overall goal of the Programme is to empower the rural poor to improve their food security and increase incomes on a sustainable basis in order to lead to long-term sector and economic development as well as poverty reduction.
3. *Objectives.* The Programme objectives are:
 - (a) Reduce the gap between national rice production and demand through (i) increased lowland rice yields by 15%; (ii) intensified rice production on approximately 4 000 ha of inland valley swamps; (iii) reduced rice post-harvest losses by 20%; and (iv) improved access to inputs for 10% of the Agricultural Business Centres (ABC)'s farmers targeted group.
 - (b) Increase farm incomes for direct beneficiaries by 10% through (i) rehabilitation of approximately 8 000 ha of tree crops; (ii) increased value addition of products through processing and marketing; (iii) improved farmers' access to extension services; and (iv) enhanced farmers' representation at local and national level to advocate on their interests within value chain development and other areas.
4. *Components.* The Programme shall consist of the following Components:
 - (a) Smallholder agriculture commercialisation. The aim of this component is to increase productivity, rural incomes and employment, on a sustainable basis both economic and environmental, through better access to technical skills, services and markets. This component shall be implemented by the MAFFS with the support of FAO.

This component is divided in three subcomponents:

(a.1) Production intensification through support to grassroots Farmer Based Organizations (FBOs) and the Farmer Field School methodology (FFS). The objective is to improve smallholders' food security and incomes by increasing the quantity and quality of crop production. It is envisaged to consolidate or set up around 1 000 new FBOs that will be divided into approximately 540 staple crops FBOs, 270 new Inland Valley Swamps (IVS)-FBOs and 200 new tree crops FBOs.

The main activities shall include the establishment of food crops FFS; the provision of a quick start productive package and the formation of FBOs based on the most productive farmers of the FFS. Equipments and infrastructure like drying floors and storage facilities shall be provided based on the needs and maturation level of the FBOs. Short-term training and medium/long term technical assistance shall also be provided.

(a.2) Improved commercialisation through access to agro-services and value-chain development. The objective is to improve the quantity, quality and value of the marketed production by increasing farmers' access to inputs, processing facilities and marketing

opportunities. The food and cash crops produced by the supported FBOs will be targeted. Three channels shall be used:

(i) The ABC model, which refers to a multipurpose facility registered and operated as a private liability company or a company limited by guarantee and aims at establishing sustainable and self governed farmer/producer associations equipped with agro-services facilities and provides their members and local farmers with essential services that support access to technology innovations. The ABC model is currently being implemented by MAFFS and FAO. The Programme shall support the consolidation of approximately 150 existing ABCs and shall finance the establishment of approximately 190 new ABCs. The Programme shall support the construction of ABC buildings and shall provide an "ABC package" adapted to the commodity/activity-focus of the ABC. FAO shall provide technical support in the implementation of the ABC development to MAFFS, through an annual result based contract.

(ii) The Agrodealer model, which relies on the development of a private network of agrodealers providing the smallholders with access to improved inputs, services and output marketing. The agrodealers are individual private entrepreneurs willing to invest in the agricultural sector in rural areas and fully integrated in the value chains. The Programme envisages supporting the establishment of approximately 40 agrodealers, who shall provide access to improved inputs to at least 1 000 farmers. This model shall be implemented directly by the Citizen Network of Foreign Affairs (CNFA) on a pilot basis on a proposal approved by the MAFFS.

(iii) The Contract Farming approach, which shall target only cash crops and seek the involvement of the private sector in order to encourage value-chain development and investments in the agricultural sector. The Programme shall seek to rehabilitate approximately 8,000 ha of abandoned and unproductive plantations. The Programme shall support the registration of the farmers/established FBOs and shall establish village nurseries with new/improved varieties of clustered FBOs, caretakers trained and seedling used for replanting of over-aged plantations. Memorandum of Understanding (MoUs) shall be entered between the IP farmers benefiting from the model. A Memorandum of Agreement (MoA) shall be established between the MAFFS and the National Coordination Unit of the RCPRP for the direct implementation of this Contract Farming approach.

(a.3) Enhanced long-term technical support and representation through the institutional development of MAFFS and the Farmer Organizations (FOs). The objective is to enable a long-term and sustainable support to farmers and their FBOs through two institutional channels that shall be strengthened by the Programme: the MAFFS mainly at district level and commodity-focused FBOs networks at district and national levels.

(i) MAFFS District Agricultural Offices (DAO). The Programme shall reinforce the capacities of MAFFS to ensure sustainable, adequate and efficient public extension services to the farmers and FBOs. A capacity building plan has been developed for 9 DAOs which shall be implemented based on a three (3) year phasing. The remaining four (4) DAOs shall be financed by the RCPRP.

(ii) FOs. Through this subcomponent the Programme shall facilitate the institutionalization and strengthening of FBOs networks at district and national levels to enable them to defend farmers' interests within the value chains and policy dialogue.

(b) Small scale irrigation development. The objective of this component is to develop small scale irrigation infrastructure in order to raise the national rice production on a sustainable manner through higher yields and increased cropping cycles per year. The Programme shall rehabilitate approximately 4 000 ha IVS.

The Programme shall focus on the rehabilitation of existing IVS that were abandoned and overgrown during war and that geographically shall complement the rehabilitation of IVS under the RCPRP. The RCPRP approach shall be replicated with improvements regarding water management and maintenance.

The role of the FBO or IVS association shall be to rehabilitate the IVS, to organize a fair management of water, to ensure the maintenance and functionality of the infrastructure, to monitor and evaluate the individual production and to provide services as defined by its members.

The IVS rehabilitation is based on the active participation of the beneficiaries in its design, implementation and monitoring. The swamps shall be managed by FBO. The Programme shall provide support to effective group formation, irrigation management and maintenance and crop cultivation. The Programme shall also establish or support around two (2) youth contractors per district to allow them to act as service providers, who shall be trained in IVS rehabilitation and development and given small equipment on a loan basis.

(c) Access to financial services. The objective of this component is to empower smallholders and rural poor economically and socially through enhanced access to affordable financial services through the establishment of profitable and sustainable Financial Service Associations (FSAs) and Community Banks (CBs).

The Programme envisages establishing 15 new FSAs and seven (7) new CBs nation-wide. Support to these new FSAs and CBs shall be provided by different institutions, which will guarantee their sustainability and consolidate the overall institutional framework of the rural finance sector. The institutions identified for providing support are the Technical Assistance Agency (TAA), the Bank of Sierra Leone (BoSL) and other partners such as Microfinance Investment and Technical Assistance Facility (MITAF II). This component shall be implemented by the National Coordination Unit of the RFCIP through a MoA signed with the MAFFS. Under this component, the Programme will seek to establish synergies with existing initiatives in the rural microfinance sector and synergies with other components of the Programme.

The Programme shall support FBOs, youth contractors and ABCs with equipments and inputs on a credit basis to enable them to start up their activities. The reimbursement shall be deposited quarterly by the implementing parties and FBOs into a special account in the Bank of Sierra Leone named "Agricultural Development Fund/Refinance Facility" (ADR/RF) that will be dedicated only to agricultural lending. In particular the ADR/RF will provide refinancing to FSAs and CBs.

II. Implementation Arrangements

1. Lead Programme Agency

1.1. Designation. Ministry of Agriculture, Forestry and Food Security (MAFFS) is designated as the Lead Programme Agency.

1.2. Responsibilities. The MAFFS is responsible for overall implementation of the Programme.

2. Programme Steering Committee (PSC)

2.1. Designation and composition. The Agricultural Advisory Group (AAG) is the national steering committee of the SCP and includes representation of farmers' organizations and from the private sector.

2.2. Responsibilities. The PSC oversees the management and implementation of the SCP. Among other responsibilities, the PSC approves the annual work plans and budgets, procurement plans and progress reports and undertakes monitoring and verifications missions.

3. The SCP Coordination Team

3.1. Establishment and composition. The SCP Coordination Team is currently an interim team comprising a National SCP Coordinator, a Planning, Monitoring and Evaluation Officer and an Information, Education and Communications Officer. The SCP Coordinator shall be recruited as a general condition precedent to withdrawal based on a competitive selection process and IFAD's no objection.

3.2. Responsibilities. The SCP Coordination Team responsibilities are to manage and coordinate the everyday SCP Programme activities. These responsibilities have been designed to ensure the effective strategic and operational planning of the SCP, to monitor the SCP implementation and to communicate and promote the SCP and they include among others, the preparation of annual work plans and budgets, the planning and coordination of programmatic components of the SCP, etc.

4. The SCP-GAFSP Management

4.1. Composition. The SCP-GAFSP Management team shall be composed of the SCP-GAFSP Manager, the M&E Officer and the Financial Controller and other technical staff. The three core positions shall be fulfilled as a condition precedent to withdrawal, based on a competitive selection process and IFAD's no objection.

4.2. Responsibilities. The SCP-GAFSP Management Team shall manage the funding under the Programme and everyday management shall be delegated to the SCP-GAFSP Manager who will report to the SCP Coordinator. Details are provided in the Project Implementation Manual.

5. District Agricultural Offices

5.1. District Agricultural Officers (DAOs) are responsible for the coordination and management of the SCP at district level. The DAOs provide the main linkage between MAFFS and the FBOs.

6. Food and Agricultural Organization (FAO)

6.1. FAO has been selected by the Recipient to act as an implementation support entity of the Programme. FAO shall provide technical assistance to MAFFS in the implementation of components a.1, a.2(i) and a.3 through an annual result based contract. At the level of MAFFS, the SCP Coordination Team and the SCP-GAFSP Management Team, FAO shall recruit three experts to get involved in capacity building of national staff, concept work, and provide assistance in the implementation of mentioned components.

7. Rehabilitation and Community-based Poverty Reduction Project (RCPRP)

7.1 The National Coordination Unit of the RCPRP shall implement the activities related to the contract farming approach for tree crop rehabilitation (Component a.2 (iii)) and those related to IVS rehabilitation (Component b) through a MoA established with the MAFFS. For tree crop rehabilitation, an external assessment of the capacities of the MAFFS will be conducted on a yearly basis in order to transfer progressively the implementation.

8. Rural Finance and Community Improvement Project (RFCIP)

8.1. The National Coordination Unit of the RFCIP shall implement the Component C Rural Finance through a MoA signed with the MAFFS.

9. Programme Implementation Manual

9.1. The Programme Management team shall prepare a Programme Implementation Manual (PIM) that shall describe (i) implementation of Programme activities; (ii) the administration of Grant proceeds and Project Parties' responsibilities; and (iii) monitoring and evaluation of Programme progress and results.

9.2. The sharing of a draft version of the PIM with IFAD is foreseen as a condition precedent to withdrawal.

Schedule 2*Allocation Table*

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Grant Amount Allocated (expressed in USD)	Percentage of IFAD financing
I. Civil Works	8 640 000	100% net of taxes and beneficiaries' contribution
II. Vehicles, Equipment and Materials	8 930 000	100% net of taxes and beneficiaries' contribution
III. Technical Assistance, Contracts and Studies	14 580 000	100% net of taxes
IV. Rural Finance	7 150 000	100% net of taxes
V. Recurrent Costs	5 700 000	100% net of taxes
VI. Unallocated	5 000 000	
TOTAL	50 000 000	

Key reference documents

Country reference documents

Poverty reduction strategy paper

Smallholder Commercialization Programme

IFAD reference documents

RB COSOP for Sierra Leone 2010 - 2015

SCP/GAFSP Project design document (PDD) and key files

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
DEVELOPMENT GOAL Rural poverty and household food security reduced on a sustainable basis	<ul style="list-style-type: none"> • 100 000 direct beneficiaries by Gender and Age • Increased Farm Incomes by 10% for direct beneficiaries • Proportion of target population below the minimum level of dietary energy consumption by gender and vulnerable groups 	<ul style="list-style-type: none"> • Household panel report, DOA reports, Food Security Surveys, Annual Production Surveys 	Appropriate support and no climatic hazard
Component 1 – Smallholder commercialization: production intensification, value addition and marketing			
Programme Outcome 1 Smallholders have increased production, intensification, value addition, marketing, and reduced rates of post harvest losses	<ul style="list-style-type: none"> • 30% of targeted farmers have increased their yields by 30% for rice, cassava and other food crops, and by 25% for tree crops • 20% of targeted farmers have reduced post harvest losses by 20% • 40% of targeted farmers have increased their incomes by 10% • 10% of targeted farmers have access to inputs and processing facilities • 20% of targeted farmers have access to MAFFS's/NaFFSL's services 	<ul style="list-style-type: none"> • Annual Production Surveys • MAFFS/DOA Annual Reports • Activity Reports • Annual Thematic Surveys • SLARI Reports & Private Sector • Annual Production Surveys 	Farmers have adequate resources to acquire productive inputs Normal weather conditions
Output 1.1 Intensified production through FFS/FBO development	<ul style="list-style-type: none"> • No. of additional ha having adopted the technologies being promoted • Volume of farm produce under improved storage 	<ul style="list-style-type: none"> • Activity Reports, Extension Reports • M&E Reports 	Willingness to adopt new technologies
Output 1.2 Improved access to market and inputs	<ul style="list-style-type: none"> • 200 new ABCs and 40 agro-dealers are established • Business Plans for 200 ABCs • No. of MoUs with IPs (contract farming) 	<ul style="list-style-type: none"> • ABCs and agro-dealers Records, M&E Reports 	ABCs and agro-dealers provided with start-up capacities for operations
Output 1.3 DOA are fully functional and NaFFSL is strengthened	<ul style="list-style-type: none"> • 50% of the capacity building plan for the DOA is completed after 2 years • No. of client days of extension services provided to farmers by gender 	<ul style="list-style-type: none"> • M&E and supervision Reports • Back to Office and Activity Reports 	
Component 2 – Small-scale irrigation development			
Outcome 2 Small scale irrigation development raises levels of rice production and increases food security, incomes and employment	<ul style="list-style-type: none"> • 30% of targeted farmers have increased their yields by 30% • 40% of targeted farmers have increased their incomes by 10% • 40% of the youth contractors are able to engage in a bidding • No. of operational IVS associations • No. of Youths gainfully employed 	<ul style="list-style-type: none"> • Annual Production Surveys • Food Security Surveys • SSL Income and Expenditure Surveys 	No adverse climatic condition and pests and diseases attack
Output 2.1 Lowland Developed/rehabilitated	<ul style="list-style-type: none"> • 4000 ha of IVS rehabilitated • No. of local service providers/youth contractors established • No. of IVS associations, registered and trained in IVS management 	<ul style="list-style-type: none"> • Activity Reports • Supervision Reports • M&E Reports 	No adverse climatic condition and pests and diseases attack
Component 3: Access to Financial Services			
Outcome 3 Access of smallholders, rural poor and their organisations to rural financial services.	<ul style="list-style-type: none"> • 10% of the targeted farmers have increased their access to financial services • No. of FSA and CB profitable • At risk proportion of FSAs and CBs loan Portfolios 	<ul style="list-style-type: none"> • MFIs Annual Reports • FSAs Reports • Financial Reports 	
Output 3.1 Financial Service Associations developed	<ul style="list-style-type: none"> • 15 FSAs created • No. of active FSAs Loan accounts, No. of active borrowers by gender 	<ul style="list-style-type: none"> • FSAs Progress Reports • Financial reports 	TAA provides adequate technical Assistance to MFIs
Output 3.2 Community Banks Supported	<ul style="list-style-type: none"> • 7 CB created • No. of active CB Loan accounts; No. of active borrowers by gender 	<ul style="list-style-type: none"> • CBs Progress Reports • Financial reports 	TAA provides adequate technical Assistance to MFIs
Output 3.3 Institutional support in place	<ul style="list-style-type: none"> • An apex body for CB/FSA is in place and functional • No. of CB/FSA having access to the refinance facility 	<ul style="list-style-type: none"> • Annual Reports 	