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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed supplementary financing to the Republic of Sierra Leone for the**

### **Rural Finance and Community Improvement Programme**

#### **Note to Executive Board representatives**

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**For: Approval**

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan and a grant to the Republic of Sierra Leone for the Rural Finance and Community Improvement Programme as contained in paragraph 17 and the modifications to the loan agreement as contained in paragraph 16.

## **President's memorandum**

### **Proposed supplementary financing to the Republic of Sierra Leone for the Rural Finance and Community Improvement Programme**

#### **I. Background**

1. This memorandum seeks approval for additional financing of an amount equivalent to SDR 1.39 million (US\$2.15 million), for the Rural Finance and Community Improvement Programme (RFCIP) approved by the Executive Board in April 2007 (EB 2007/90/R.11/Rev.1).
2. As highlighted in the results-based country strategic opportunities programme (RB-COSOP) approved by the Executive Board in April 2010 (EB 2010/99/R.12), the recommendation for the 2010-2012 performance-based allocation system (PBAS) allocation for Sierra Leone was to scale up the activities being implemented by IFAD in the country. One of the three strategic objectives of the COSOP was to provide institutional support to rural finance so as to ensure that poor rural people have access to reliable and sustainable financial services. Specifically, the COSOP consultation process recommended scaling up of the work on microfinance and community banks being implemented in the country through the RFCIP.
3. The proposed supplementary financing to the RFCIP in the amount of US\$2.15 million is to be derived from funds made available to Sierra Leone under the PBAS allocation for the 2010-2012 cycle. The funds will be allocated to the Republic of Sierra Leone as a top-up to the ongoing grant.

#### **II. Justification and rationale**

4. The supplementary financing will contribute to achievement of the programme goal. The overall objective of the RFCIP is to contribute to sustainable rural poverty reduction and enhanced food security. The specific objectives of the RFCIP are to empower communities – including women and poor people – to participate in and benefit from community-based planning and implementation and to develop the institutional capacity to support communities in their endeavours. The RFCIP has three components:
  - Access to rural financial services, currently being implemented through: (i) creation of grass-roots financial associations (30 financial service associations [FSAs]); (ii) support to community banks (creation of seven community banks [CBs] and support to six existing CBs); (iii) support for a favourable environment for rural finance through assistance to the Bank of Sierra Leone; and (iv) establishment of an apex body.
  - Support to community development through: (i) capacity-building of communities; (ii) youth support development packages; (iii) a community

development planning process; (iv) a community development fund; and (v) communication and information campaigns.

- Programme management, the main objective of which is to ensure effective and timely implementation of the programme and to achieve its desired impact. The Ministry of Agriculture and Food Security is the lead programme agency.
5. The RFCIP has established 32 FSAs and 4 CBs against the target of 36 FSAs and 7 CBs. The remaining rural financial institutions are expected to be operational in the second quarter of 2012. The latest supervision mission confirmed that some 85 per cent of the quantitative objectives had been achieved by about midterm. Moreover, the rural financial institutions supported have displayed an impressive improvement in terms of both management and financial performance. The FSAs and CBs have also been recognized by the Government as an innovative and successful model.
  6. During implementation, the programme has reviewed and fine-tuned the operational model for both CBs and FSAs to suit the business and sustainability needs of these institutions. They operate on principles developed under the RFCIP and adopted by their respective boards.
  7. At the institutional level, the RFCIP has established the Technical Assistance Agency (TAA) as an apex organization for the rural financial sector. The TAA provides services and products to the RFCIP-supported rural financial institutions, including management information system support, specialized training, internal audit, technical advice, market research and product development, specie movement, networking and liaison services, policy and procedural support, recruitment services, knowledge-sharing, FSA and commercial bank linkage, and conflict resolution.
  8. As another major innovation – and to enhance liquidity in the rural financial market – a refinance facility fund has been established in the financial market division of the Bank of Sierra Leone. Eight qualifying institutions have now applied. Ten FSAs have participated in the refinance facility, which was piloted by the RFCIP with a disbursement of US\$105,000. Results achieved through the facility include growth in FSA income and share capital, and a healthy portfolio with zero per cent of the portfolio at risk.
  9. In terms of outreach, FSAs and CBs are serving a large number of poor rural clients. As of 31 December 2011, CBs have served a total of 10,630 loan clients and 20,972 shareholders, with outstanding loans of US\$1,673,723 and deposits mobilized from shareholders in the amount of US\$2,436,260. The 32 operating FSAs have provided enhanced financial security for 5,223 active loan clients, with an outstanding loan balance of US\$628,604, and 26,178 shareholders.
  10. Overall, the RFCIP has provided crucial services to the rural population. CBs and FSAs have provided a wide variety of financial products and enhanced self-reliance to the rural population; this is particularly relevant in a post-conflict economy. The programme has also been performing well, with disbursement rates having risen steeply to 75 per cent and with achievement of most of the targets established in the grant agreement. However there remains a need to scale up these activities and services further, as envisioned in programme design and in the COSOP, as well as to scale up the institutions and provide support to ensure sustainability.
  11. Thus the supplementary financing will be critical in ensuring operational and financial self-sufficiency and sustainability before the phasing out of donor funds.

### **III. Programme costs**

12. Original programme costs totalled US\$10.9 million. IFAD financed US\$9.88 million (90.6 per cent) as a grant, the Government contributed US\$0.51 million

(4.7 per cent) in the form of exemptions on taxes and duties, and beneficiaries contributed US\$0.51 million (4.7 per cent), primarily in the form of labour and local materials.

13. The supplementary financing of US\$2.15 million will be provided in a 50 per cent loan, 50 per cent grant ratio, and will be allocated to existing expenditure categories according to the following distribution.

#### **Supplementary financing**

<i>Category number</i>	<i>Category description</i>	<i>Loan (US\$)</i>	<i>Grant (US\$)</i>
I	Civil works	20 000	20 000
II	Service provider contracts	180 000	180 000
III	Vehicle, office furniture, equipment, materials	130 000	130 000
IV	Short-term consultants	30 000	30 000
V	Survey and studies	20 000	20 000
VI	a) Refinance facility	150 000	150 000
	b) Share capital	325 000	325 000
VII	Community development fund	-	-
VIII	Salaries and allowances	120 000	120 000
IX	Operation and maintenance		-
(i)	a) Office	20 000	20 000
(ii)	b) Vehicles	80 000	80 000
X	Unallocated		-
TOTAL		1 075 000	1 075 000

14. No new category has been added; thus all funds will be devoted to increased support and scaling up of ongoing RFCIP activities.
15. Two important results are expected through the supplementary financing: (i) a significant increase in the number of programme beneficiaries to be reached through the refinance facility and the share capital (comprising 44 per cent of the proposed supplementary financing); and (ii) enhanced capacity of the apex body to supervise and monitor CBs and FSAs.

#### **IV. Proposed modifications to the grant agreement**

16. Upon approval by the Executive Board, the existing grant agreement will be amended to reflect: (i) supplementary IFAD financing for the RFCIP – in a 50 per cent grant, 50 per cent loan ratio; and (ii) allocation of the funds to the RFCIP budget across the expenditure categories as outlined in the preceding table.

#### **V. Recommendation**

17. I recommend that the Executive Board approve the proposed supplementary financing in terms of the proposed resolution:

RESOLVED: that the Fund shall provide a supplementary loan on highly concessional terms to the Republic of Sierra Leone in an amount equivalent to six hundred ninety-five thousand special drawing rights (SDR 695,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a supplementary grant to the Republic of Sierra Leone in an amount equivalent to six hundred ninety-five thousand special drawing rights (SDR 695,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President