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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the Republic of Sierra Leone for the**

### **Rural Finance and Community Improvement Programme – Phase II**

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

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**For: Approval**

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## Abbreviations and acronyms

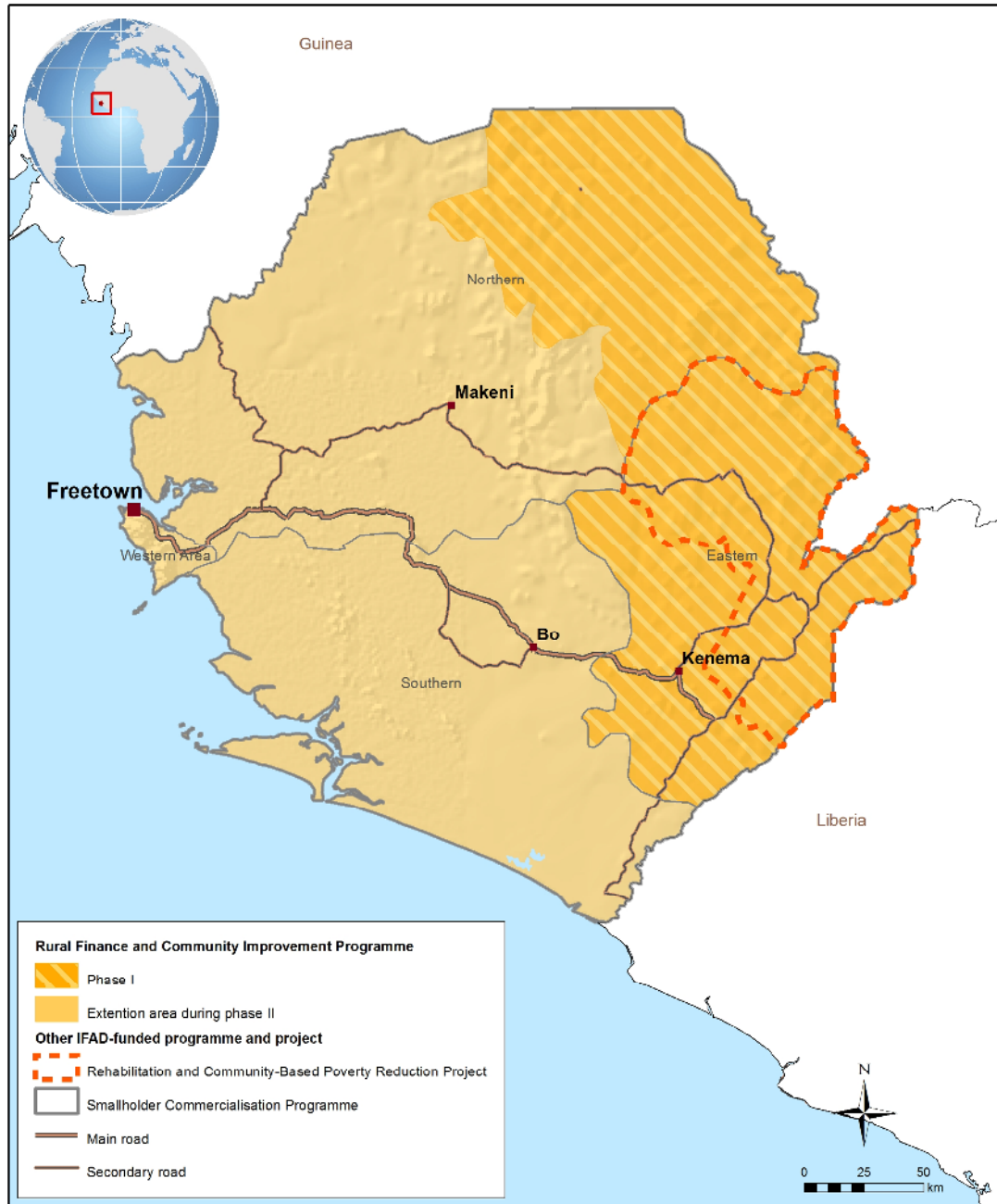
|        |  |
|--------|--|
| BOSL   | Bank of Sierra Leone   |
| CBs    | community banks  |
| FSAs   | financial service associations                               |
| FSDP   | Financial Sector Development Plan                            |
| IFC    | International Finance Corporation                            |
| MAFFS  | Ministry of Agriculture, Forestry and Food Security          |
| MOFED  | Ministry of Finance and Economic Development                 |
| MOTI   | Ministry of Trade and Industry                               |
| NAIP   | National Agricultural Investment Programme                   |
| NaSSIT | National Social Security and Insurance Trust, Sierra Leone   |
| NCU    | National Coordination Unit                                   |
| NSADP  | National Sustainable Agriculture Development Plan 2010-2030  |
| RCPRP  | Rehabilitation and Community-based Poverty Reduction Project |
| RFCIP  | Rural Finance and Community Improvement Programme            |
| RFIs   | rural financial institutions                                 |
| SCP    | Smallholder Commercialization Programme                      |

# Map of the programme area

## Republic of Sierra Leone

### Rural Finance and Community Improvement Programme - Phase II

*President's report*



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 16-01-2013

**Source:** Map compiled by IFAD

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## Republic of Sierra Leone

### Rural Finance and Community Improvement Programme – Phase II

#### Financing summary

|  |  |
|--|--|
| <b>Initiating institution:</b>         | IFAD   |
| <b>Borrower:</b>                       | Republic of Sierra Leone   |
| <b>Executing agency:</b>               | Ministry of Agriculture, Forestry and Food Security  |
| <b>Total programme cost:</b>           | US\$38.1 million   |
| <b>Amount of IFAD loan:</b>            | SDR 7,375,000 (equivalent to approximately US\$11.2 million)   |
| <b>Amount of IFAD grant:</b>           | SDR 7,375,000 (equivalent to approximately US\$11.2 million)   |
| <b>Terms of IFAD loan:</b>             | 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum |
| <b>Proposed cofinancier(s):</b>        | National Social Security and Insurance Trust (NaSSIT), the International Finance Corporation (IFC) or other donor                |
| <b>Proposed amount of cofinancing:</b> | NaSSIT or other donor: US\$6.9 million<br>IFC: US\$1.0 million   |
| <b>Terms of cofinancing:</b>           | Loan   |
| <b>Contribution of borrower:</b>       | US\$4.5 million  |
| <b>Contribution of beneficiaries:</b>  | US\$3.5 million  |
| <b>Appraising institution:</b>         | IFAD   |
| <b>Cooperating institution:</b>        | Directly supervised by IFAD  |

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing, in the form of a loan and a grant, to the Republic of Sierra Leone for the Rural Finance and Community Improvement Programme – Phase II, as contained in paragraph 44.

## Proposed loan and grant to the Republic of Sierra Leone for the Rural Finance and Community Improvement Programme – Phase II

### I. Strategic context and rationale

#### A. Country and rural development and poverty context

1. In 2002, Sierra Leone emerged from a civil war that lasted for almost 11 years and had devastating social and economic consequences. Since the war ended, a substantial evolution in social, economic and political terms has taken place. Peace has spread throughout the country and democracy is being embraced by the population.
2. Despite this, Sierra Leone is included among the least developed countries, and participates in the Heavily Indebted Poor Countries Debt Initiative. The country meets the criteria set by the Food and Agriculture Organization of the United Nations for categorization as a Low-Income Food-Deficit Country, and it is ranked 180 out of 187 in the *Human Development Report 2011* (issued by the United Nations Development Programme). Its population is estimated at 5.8 million (2010), with an average annual growth rate of 2.1 per cent. About two thirds of the population live in rural areas and about 70 per cent live below the poverty line, most in severe poverty; about 60 per cent of the youth (encompassing non-school-going 15-year olds to 35-year old adults) are either unemployed or underemployed; in 2009, life expectancy at birth was 48 years and only 41 per cent of the adult population were literate; the female literacy rate was 26.8 per cent. Rural poverty in Sierra Leone is widespread and deep, and directly linked to the problems hampering agricultural production and commercialization.
3. **Agriculture potential.** Agriculture is considered the priority sector for poverty alleviation in Sierra Leone today. The sector has been gaining strength and prospects for further growth look promising. Between 2008 and 2009, the sector grew by 4 per cent. Furthermore, all the subsectors experienced output growth, especially crop production which grew by 5.2 per cent thanks to policy interventions such as the Government's commercialization policy (covering farm mechanization, processing and marketing).
4. To capture the benefits of this momentum, the constraints faced by farmers today need to be addressed. In particular, access to labour and inputs is seen as a major hurdle to increased productivity and production. The absence of modern processing equipment limits opportunities for adding value and inadequate rural infrastructure (roads) constrains farmers' access to markets. More broadly, farmers suffer from limited rural services, including financial services (only an estimated 5 per cent of farmers currently have access to financial services). Huge potential exists to address the most common constraints.

## **B. Rationale and alignment with government priorities and RB-COSOP**

5. Efforts to develop the rural and agricultural sector are guided by multiple strategic directives, led by the Ministry of Agriculture, Forestry and Food Security (MAFFS). These have resulted in the National Sustainable Agriculture Development Plan 2010-2030 (NSADP), and the Smallholder Commercialization Programme (SCP) whose purpose is to implement the NSADP. Within this overarching framework, the provision of better access to financial services specifically tailored to the rural sector is a critical component. Such access would complement the policies aimed at fostering agricultural productivity and promoting value chain development and commercial agriculture through the private sector. The rural finance agenda has therefore become increasingly prominent, and is championed not only by MAFFS, but also by the Ministry of Finance and Economic Development (MOFED) and the Bank of Sierra Leone (BOSL), as set forth in the Financial Sector Development Plan (FSDP). The expansion of the rural financial network through the rapid growth of financial service associations (FSAs) and community banks (CBs) is also evidence of this national commitment.
6. There is a high degree of congruence between the Government's strategies and IFAD's mandate for rural poverty reduction. As clearly articulated in the 2010-2015 country strategic opportunities programme (COSOP), the strategic objective to support rural finance by ensuring that the rural poor have access to reliable and sustainable financial services (savings, credit, transfers and remittances) will be progressively scaled up to the national level. Following the request by the Government of Sierra Leone for greater efforts to increase access to rural finance and agricultural financial products, the proposed programme was jointly conceived by IFAD and the Government to build on the achievements of the Rural Finance and Community Improvement Programme (RFCIP), thereby strengthening and broadening the rural financial system in Sierra Leone and establishing stronger linkages with the agricultural sector. Within the framework of the national strategy for economic growth and development, which prioritizes the agricultural sector, rural finance has become a key strategic tool in promoting agricultural development.

## **II. Programme description**

### **A. Programme area and target group**

7. **Geographic scope.** Programme implementation will be nationwide, covering all 13 districts of Sierra Leone. Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) economic potential; and (iii) coverage by ongoing IFAD-supported operations, namely the Rehabilitation and Community-Based Poverty Reduction Project (RCPRP), RFCIP and Smallholder Commercialization Programme under the Global Agriculture and Food Security Program (SCP-GAFSP). The programme will therefore build on what has already been achieved and will maximize impact by targeting farmers and small business operators and microentrepreneurs for productive activities, including members of farmers' organizations, inland valley swamps and agricultural business centres.
8. **Targeting strategy.** The programme will improve the conditions and products offered by FSAs and community banks to ensure a sharper pro-poor focus and better outreach to farmers. Transparency in the loan approval process is also important to ensure that the poor are not "crowded out" as a result of lack of funds. Assuming that each FSA and community bank will be able to improve its community outreach, the programme will reach some 285,000 households (more than 35 per cent of all rural households) during its nine-year implementation period, with at least one financial product. The majority of these households will be poor and marginalized. The programme's pro-poor approach complements the efforts of projects such as the RCPRP, which works with the poorest strata of the rural population – an increasingly

bankable group – through the provision of financial products. Special efforts have been made to tailor financial products to meet this group’s needs. Based on surveys and field observation, three agricultural financial products will be made available: (i) agricultural campaign loans; (ii) agricultural rehabilitation loans; and (iii) equipment and processing loans.

9. **Gender strategy.** The programme will support gender mainstreaming, women’s empowerment and specific targeting measures for youth to ensure maximum participation by these vulnerable groups in programme activities. These measures will include (i) provision of products tailored to the needs of women and youth by the community banks; (ii) adoption of a gender action learning system (GALS); (iii) establishment of quotas for participation of women and youth in programme activities (e.g. ensuring gender balance among bank staff and on the board of directors); provision of literacy and numeracy training for women’s saving and borrowing groups; ensuring outreach to the poor and to women through communication/sensitization campaigns; and emphasis on gender- and youth-disaggregated monitoring and evaluation.

## **B. Programme development objective**

10. Aligned with national priority objectives as articulated in the Poverty Reduction Strategy Paper (PRSP) and NSADP, the overall programme goal is to reduce rural poverty and household food insecurity on a sustainable basis. The programme development objective is to improve access to rural financial services to foster agricultural sector development. In order to fill the void in districts not covered by the RFCIP and consolidate the gains made so far, the proposed programme will scale up the ongoing RFCIP to the national level and forge linkages with other IFAD- and donor-supported projects. These linkages will strengthen and expand the rural financial system to enable it to continue meeting the needs of the rural communities it serves in the long term.

## **C. Components/outcomes**

11. **Component 1: Strengthening and expanding the rural finance system.** The expected overall outcome of this component is that financial products will be developed to foster agricultural production and commercialization, and that at least 35 per cent of the rural population will have access to rural finance services. This will position farmers to improve their agricultural production by providing them with the financial resources to buy inputs that will lead to increased output. The component has two subcomponents: (i) sustainable and autonomous rural financial institutions; and (ii) promotion of agricultural financial products through the Agricultural Finance Facility and the capitalization of the community banks. This component will therefore consolidate and ensure the sustainability of 87 rural financial institutions – existing and planned – and provide the necessary technical support. An apex bank will be established to ensure: (i) provision of technical support to promote sound management and good performance of these institutions; (ii) compliance with financial regulations; and (iii) availability of required liquidity through the community banks and the FSAs to respond to the needs of the rural population in terms of loan financing, especially term financing.
12. The comprehensive approach to extending the outreach of the rural financial system places considerable emphasis on the need for sustainability, operational self-sufficiency and a clear exit strategy. This will be reflected in the business plans of the apex bank, the community banks and the FSAs. While the programme will provide some interim support for the operational costs of the RFIs, this support will be strictly based on their business plans and staggered in line with the exit strategy.
13. **Component 2: Programme management and coordination.** This component will ensure that the programme is efficiently and effectively managed to achieve the expected results. The considerations of gender, youth, environment, knowledge management and communication will be integrated into all aspects of programme



management, and into the activities of the national coordination unit (NCU). Performance indicators will include the quality and timely execution of annual workplans and budgets, prompt submission of progress reports and preparation of annual audit reports. An operational monitoring and evaluation (M&E) system will be developed to track key indicators and actual levels of disbursements in line with budgeted forecasts.

14. The programme's components have been designed to be mutually reinforcing. The mix of activities will be determined through a participatory and demand-driven process in which the programme's capacity to deliver will be directly linked to meeting the demands of the rural sector for technical assistance and funding.

### **III. Programme implementation**

#### **A. Approach**

15. The main focus of the programme is to strengthen the capacity of rural financial service providers to increase their outreach and provide demand-driven services to rural communities. A key feature of the programme is its business-oriented approach, which begins at the retail RFI level, where FSAs and community banks are established on the basis of viable business plans and managed on business principles. Similarly, at the end-client level, access to rural finance will be provided and managed on the basis of viable business plans. At all levels, it will be critical for programme support to be evaluated against results and performance with respect to the business plans and loan applications. All loan and financial support agreements, at both the wholesale and retail level, will be conditional on performance and results.
16. Given the extended time frame needed for institution-building, the programme will be implemented over nine years and in three phases, with key indicators triggering advancement to the next phase. The phased approach allows for progressive monitoring of the level of autonomy of the RFIs and implementation of the exit strategy.

#### **B. Organizational framework**

17. Overall programme oversight will be undertaken by a programme steering committee (PSC), co-chaired by the Minister for Agriculture, Forestry and Food Security and the Minister for Finance and Economic Development. The committee will use the existing NCU as its secretariat and will be responsible for providing overall policy guidance. The NCU will monitor the implementation of PSC decisions. As with the RFCIP, the MAFFS will be the lead implementing agency with overall responsibility for the programme but will assign day-to-day implementation and coordination to the NCU, which is currently responsible for all IFAD-financed programmes/projects. Responsibility for specific technical rural finance activities (provision of services to community banks/FSAs, capitalization of community banks and administration of the Agricultural Finance Facility will be delegated – through a subsidiary agreement – to the apex bank. The programme will also be supported by key strategic partners such as MOFED, the Ministry of Trade and Industry, BOSL, the private sector (especially external investors such as the National Social Security and Insurance Trust) and donors, so as to ensure an inclusive and harmonized approach to rural finance.

#### **C. Planning, monitoring and evaluation, and learning and knowledge management**

18. A system integrating planning, M&E and knowledge management will be developed with the objective of: (i) providing stakeholders with the information and analysis required to steer programme implementation by enabling them to assess performance, identify difficulties, successes and lessons in support of decision-making to improve programme performance; (ii) providing MAFFS and other ministries (MOFED, MOTI) with information on progress, so as to measure the

contribution of the programme to the implementation of the NSADP and NAIP, and support coordination and synergy with other ongoing projects; (iii) monitoring programme influence and impact on building participatory processes that ensure full participation of the vulnerable and avoid elite capture; (iv) providing communities with regular reports containing the analysis and comparative data they need to request appropriate support services; and (v) keeping the IFAD Country Programme Management Team informed of achievement of COSOP targets. The NPCU will manage this system with the Planning, Evaluation, Monitoring and Statistics Division of MAFFS.

19. The integrated planning and M&E cycle will start with the preparation of the annual workplan and budget, based on a demand-driven and bottom-up approach involving the participation of beneficiaries and all programme stakeholders. The integrated system will: (i) measure the achievement of the logical framework indicators (including the Results and Impact Management System [RIMS]); (ii) assess the relevance of the programme strategy, methodologies and implementation processes; (iii) assess the performance of implementing agencies and service providers; (iv) assess programme outcomes and impact on the livelihoods of participating farmers, particularly on vulnerable households, women and young people; (v) identify successes and good practices; and (vi) share knowledge with programme stakeholders to support dialogue and decision-making.

#### **D. Financial management, procurement and governance**

20. **Financial management.** The programme will be implemented through the Government of Sierra Leone's financial management systems, and will adopt an accounting system consistent with international accounting standards and government requirements. The MAFFS and the NCU will be responsible and accountable to the Government and IFAD for the proper use of funds in line with the financing agreement and IFAD General Conditions. The NCU has established a satisfactory track record in managing IFAD financing. According to the financial management assessment undertaken by IFAD, the NCU has an adequate financial management arrangement in place, which covers the subcategories of organization and staffing, budgeting, flow of funds and disbursement arrangements, internal controls, accounting systems, policies and procedures, reporting and monitoring, and external audit.
21. All disbursements will follow IFAD's disbursement procedures as outlined in the letter to the borrower and Loan Disbursement Handbook. Payments under all categories will be apportioned on a 50:50 pari passu basis between the loan and the grant. There will be the following accounts: (i) a designated account in United States dollars, (ii) a project account in local currency; and (iii) a counterpart financing account in local currency to be opened and maintained in a bank acceptable to IFAD. Transfers of funds to the main programme party, the apex bank will be made to a separate programme account acceptable to IFAD. The apex bank will be responsible for providing financial reports to the NCU, while the NCU will be responsible for preparing consolidated financial statements for the programme. External auditors with qualifications and experience to IFAD's satisfaction will be appointed to conduct annual audits of the programme's financial statements in compliance with the International Standards on Auditing (ISA). In addition to the standard audit opinions outlined in IFAD's Guidelines on Project Audits, IFAD will require a separate audit opinion on the use of the Agricultural Finance Facility managed by the apex bank.
22. **Procurement.** Sierra Leone adopted the Public Procurement Act in December 2004. In general, Sierra Leone procurement laws and regulations are in line with IFAD guidelines; therefore, procurement under the proposed programme will be carried out in accordance with national procedures to the extent that they are compatible with the IFAD guidelines, as may be amended from time to time, and will comply with IFAD's requirement for prior review in relation to the threshold set for goods,

works and services. Each contract to be financed by IFAD will be included in the procurement plan prepared by the NCU and agreed with IFAD.

23. **Governance.** With a 2012 Corruption Perception Index rating of 3.1 (out of a maximum of 10), the Government is making the fight against corruption a national priority. In alignment with national efforts, the continued promotion of the principles of good governance in programme design and implementation is highly relevant. This entails a sustained effort to pursue good governance, including fiduciary management and supply-side and demand-side measures. Supply-side measures will entail strengthening internal efficiency and effectiveness in delivery of public goods and services. However the programme will focus on demand-side initiatives that support the active participation of beneficiaries/ clients to give them a voice in decision-making and monitoring processes for achieving development outcomes. The principles of transparency, accountability and participation will be upheld by sensitizing communities to good governance principles and processes to mitigate the risk of corruption and promote more effective use of programme resources.
24. To address governance issues, the Government has identified key elements that need to be promoted and mainstreamed during programme implementation. These include: (i) increased and consistent disclosure of information to a wide audience, particularly at the community level; (ii) encouraging beneficiary/civil society oversight, in particular for monitoring purposes and to ensure that programme-related information can be discussed openly (note that FSAs, community banks and farmers' organizations will also be represented on the apex board of directors); (iii) a responsive complaints handling system; and (iv) sound accounting and audit measures within the context of rigorous financial management. Documents owned partly by IFAD will comply with IFAD's Disclosure Policy. The elaboration of these measures will lead to greater transparency and accountability in programme implementation.

## **E. Supervision**

25. The programme will be supervised directly by IFAD. Annual supervision missions, including follow-up missions when required, will be organized with the participation of the Government, implementing partners and beneficiaries. Supervision will not be conducted as a general inspection or evaluation, but rather will be used as an opportunity to assess achievements and lessons jointly, and to reflect on ways to improve implementation and impact. Missions will be an integral part of the knowledge management cycle, with mission members playing a supportive and coaching role for programme staff and service providers. Two joint interim reviews are also expected to take place in close collaboration with key stakeholders.

## **IV. Programme costs, financing, benefits**

### **A. Programme costs**

26. The total programme cost is estimated at US\$38.15 million, over a period of nine years. The base cost is estimated at US\$36.96 million, with physical and price contingencies representing 3 per cent of the total programme cost.

### **B. Programme financing**

27. The programme will be financed by IFAD, the Government of Sierra Leone, NaSSIT, IFC, other donor and the beneficiaries. The IFAD contribution will amount to approximately SDR 14.750 million (or US\$22.3 million, with 50 per cent provided as loan and 50 per cent as a grant). The NaSSIT or other donor's contribution is US\$6.9 million and will finance the Agricultural Finance Facility, the equity for the community banks and the capitalization of the apex bank. The IFC contribution<sup>1</sup> of US\$1 million will cofinance the capitalization of the apex bank. The Government's contribution is estimated at around US\$4.5 million and will cover taxes and duties (12 per cent of

<sup>1</sup> In the event that IFC cofinancing is not confirmed, NaSSIT will finance the capitalization of community banks in full.

total costs) and the fixed asset contribution to the apex. Approximately US\$3.4 million (9 per cent of total costs) will be provided by beneficiaries.

Sera Leone  
Rural Finance and Community Improvement Programme (RFCIP)  
Components by Financiers  
(US\$'000)

|  | The Government |             | IFAD          |            | Beneficiaries |             | NASSIT       |             | IFC          |            | Total         |              | For. Exch.   | Local (Excl. Taxes) | Duties & Taxes |  |
|--|----------------|-------------|---------------|------------|---------------|-------------|--------------|-------------|--------------|------------|---------------|--------------|--------------|---------------------|----------------|--|
|  | Amount         | %           | Amount        | %          | Amount        | %           | Amount       | %           | Amount       | %          | Amount        | %            |              |                     |                |  |
| <b>A Consolidation of the Rural Finance System</b>           |                |             |               |            |               |             |              |             |              |            |               |              |              |                     |                |  |
| Sustainable and autonomous rural financial institutions      | 3,705          | 134         | 17,575        | 636        | 3,477         | 126         | 2,880        | 105         | -            | -          | 27,647        | 725          | 1,177        | 23,765              | 2,705          |  |
| Promotion of agricultural financial products through the AFF | -              | -           | -             | -          | -             | -           | 4,000        | 800         | 1,000        | 200        | 5,000         | 131          | -            | 5,000               | -              |  |
| <b>Subtotal Consolidation of the Rural Finance System</b>    | <b>3,705</b>   | <b>11.3</b> | <b>17,575</b> | <b>538</b> | <b>3,477</b>  | <b>10.7</b> | <b>6,880</b> | <b>21.1</b> | <b>1,000</b> | <b>3.1</b> | <b>32,647</b> | <b>856</b>   | <b>1,177</b> | <b>28,765</b>       | <b>2,705</b>   |  |
| B. Programme Management and Coordination                     | 760            | 138         | 4,740         | 862        | -             | -           | -            | -           | -            | -          | 5,501         | 144          | 825          | 3,915               | 760            |  |
| <b>Total PROGRAMME COSTS</b>                                 | <b>4,465</b>   | <b>11.7</b> | <b>22,316</b> | <b>585</b> | <b>3,477</b>  | <b>9.1</b>  | <b>6,880</b> | <b>18.1</b> | <b>1,000</b> | <b>2.6</b> | <b>38,147</b> | <b>1,000</b> | <b>2,002</b> | <b>32,680</b>       | <b>3,465</b>   |  |

28. The IFAD loan and grant proceeds would be allocated to the following (tentative) expenditure categories: (i) civil works (12 per cent of total costs); (ii) equipment, goods and vehicles (12 per cent); (iii) capacity-building (24 per cent);<sup>2</sup> (iv) salaries and allowances (29 per cent);<sup>3</sup> (v) operation and maintenance (13 per cent); and (vi) unallocated (10 per cent).

### C. Summary benefit and economic analysis

29. **Beneficiaries.** With its direct support to the rural financial system, the programme will reach a population of around 285,000 farming households, based on the expectation that on average, each community bank will cater to 10,000 rural households, and each FSA will reach 1,000 rural households. The majority of these households will benefit from agricultural campaign loans, though some will take out rehabilitation and equipment loans.
30. **Benefits.** The key benefits arising from this rural finance programme derive from the improved access to financial services, as a critical measure to enhance economic development and reduce poverty in rural areas. Through the financial services and products offered, the programme will have significant impact in terms of improved farming activities and agricultural production and substantial increases in yields and productivity.
31. Programme support to FSAs and the community banks – including equity investment in the banks and support from the apex bank – will lead to better financial performance and higher quality services from the institutions. As a result, it is expected that FSAs and community banks will expand their outreach, offer more diversified products (particularly agricultural lending) and achieve higher profitability and viability, thereby ensuring their sustainability and operational self-sufficiency. Other institutional benefits will include: (i) enhanced ability of community banks/FSAs to provide a range of agricultural financial products to small farmers and small and medium-sized enterprises in the agricultural sector, (ii) greater integration of informal and semi-formal institutions into the financial sector, (iii) improved capability of BOSL and MOFED to carry out their respective mandates; and (iv) better provision of services to the community bank/FSA network through the apex bank.
32. The principal benefits of the programme over its nine-year lifespan are expected to be as follows: (i) 285,000 rural households have access to at least one financial product; (ii) 175,000 rural loans are extended nationwide; (iii) US\$72 million

<sup>2</sup> Note that the cost category “capacity-building” includes training and workshops, consultants, technical assistance and a radio broadcast campaign.

<sup>3</sup> Note that approximately 80 per cent (SDR 3.4 million) of this category will cover the salaries and allowances of the 87 RFIs and the apex body as initial support to the rural finance sector; the remainder will cover the salaries related to programme management.

provided in incremental lending to the rural sector; (iv) 87 sustainable and profitable FSAs and community banks operating with improved financial performance by 2017; (v) a sustainable apex body is providing support to the sector; (vi) increased impact on agricultural production and consequently food security; (vii) enhanced food security and increased cash flow for more than 100,000 households; (viii) a reduction in food imports (mainly rice, thereby strengthening the country's overall balance of payments and national budget; and (ix) a strengthened BOSL providing regulatory and oversight support to the sector.

33. **Economic viability and sensitivity analysis.** The economic internal rate of return (ERR) of the programme is estimated at 11.3 per cent with a net present value of US\$ 2.1 million. These results indicate that, on the basis of an opportunity cost of capital of 10 per cent, the programme will generate a satisfactory ERR and is therefore justified on economic grounds. The results of the sensitivity analysis are also satisfactory. The programme's economic viability is robust to adverse changes in programme costs, and the programme remains viable despite increases in capital and recurrent costs or delay of benefits.

## **D. Sustainability**

34. The programme's approach, phasing and compliance with best practices have been designed to ensure the sustainability of the rural financial system network and its continued growth in the country. The approach includes a well-defined exit strategy for the cessation of IFAD's support to the rural finance sector. The programme will promote sustainability on several levels: (i) provision of a range of services to the poorest segment of the population by 87 operationally sustainable RFIs (these institutions will be owned by their members and will provide savings and credit facilities and other financial products to their clients); (ii) the apex bank will be operationally sustainable and will manage a rotating wholesale credit fund (in addition to providing technical and management services to the RFI network); (iii) through the access to savings and credit services, individual farmers and small business operators will have incremental capital to invest in expanding their businesses, and a means to diversify their sources of income, which will increase the profitability of their activities and will help alleviate poverty; (iv) the community banks and FSAs will bring more people into the formal financial sector, thereby strengthening the deposit and liquidity bases of the sector; (v) the capacity of the BOSL to apply effective regulations and ensure oversight of the rural financial sector will be enhanced, thereby strengthening the operations of both the BOSL and the entire banking system; and (vi) external investors will have evidence that outlays can be made to the rural sector on a profitable, risk-managed basis.

## **E. Risk identification and mitigation**

35. Key risks to implementation include: (i) an uncondusive policy environment and/or political interference; (ii) the capacity of community banks and FSAs to maintain healthy portfolios and manage their activities in a business-like fashion; (iii) capacity to translate increased funding into financing for the agricultural sector; and (iv) defaults by the community banks or FSAs. The mitigating measures will include extensive policy dialogue with multiple stakeholders, support to the apex bank in providing assistance to the community banks and FSAs, recruitment of well-qualified staff, close monitoring by both the apex bank and the BOSL, and a strong and continuous emphasis on capacity-building.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

36. The programme is aligned with all relevant IFAD strategies and policies, including: the IFAD (i) Strategic Framework 2011-2015; (ii) Targeting Policy; (iii) Policy on Gender Equality and Women's Empowerment; (iv) Rural Finance Policy; (v) Private-Sector Development and Partnership Strategy; (vi) Rural Enterprise Policy;

(vii) Policy on Supervision and Implementation Support; (viii) Policy on Sector-wide Approaches for Agriculture and Rural Development; (ix) Country Presence Policy and Strategy; (x) Environment and Natural Resource Management Policy; (xi) Environmental and Social Assessment Procedures; and (xii) Policy on the Disclosure of Documents (2010). Given the nature and extent of the likely environmental effects, the programme is classified as a Category B intervention. The potential negative environmental effects are assessed to be within controllable limits.

## **B. Alignment and harmonization**

37. The Government and IFAD share a common vision of using agriculture and access to financial services as a vehicle for improving rural livelihoods and incomes. This programme, envisaged in the current COSOP for Sierra Leone, responds directly to the objectives and targets articulated in the FSDP and SCP (the SCP being the national programme for implementation of the Comprehensive Africa Agriculture Development Programme [CAADP]). In addition, the programme intends to work in close collaboration with ongoing agricultural interventions in the country to ensure that small farmers in particular have access to both financial and non-financial services as part of the effort to improve agricultural productivity.

## **C. Innovations and scaling up**

38. **Innovative features of the programme.** The programme builds on the innovative features of RFCIP and broadens rural financial service outreach. Most notably it will introduce private-sector investment to agricultural financial services and widen the range of services provided. This approach reduces the amount of risk capital that IFAD needs to invest and links small, participant-owned entities such as the FSAs, with the formal financial sector. The major innovation, which will be realized through successful implementation of the programme, will be to demonstrate that rural lending in Sierra Leone can be a profitable activity, and thereby attract more private sector investment in rural banking services.
39. The operating modalities of the RFIs will take into account the importance of building sustainable linkages with the financial sector. In the longer term, the programme will seek to encourage replication of positive experiences, based on lessons learned where conditions are favourable. The expectation is that all RFIs will have achieved autonomy five years before the end of programme and will have a strong commitment to agricultural financing.

## **D. Policy engagement**

40. IFAD will continue to pursue policy dialogue and engagement with the Government in the priority area of rural finance with a view to anchoring community-based financial institutions in the overall financial system. The programme will strengthen policy dialogue on rural finance, particularly with regard to gender issues, through institutional support to the BOSL in terms of capacity-building.

## **VI. Legal instruments and authority**

41. A programme financing agreement between the Republic of Sierra Leone and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
42. The Republic of Sierra Leone is empowered under its laws to receive financing from IFAD.
43. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

44. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Sierra Leone in an amount equivalent to seven million three hundred and seventy-five thousand special drawing rights (SDR 7,375,000), 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 grant to the Republic of Sierra Leone in an amount equivalent to seven million three hundred and seventy-five thousand special drawing rights (SDR 7,375,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Rural Finance and Community Improvement Programme - Phase II"**

(Negotiations concluded on 13 March 2013)

Loan Number: [click and insert number]

Grant Number: [click and insert number]

Programme Title: Rural Finance and Community Improvement Programme – Phase II ("RFCIP2" or "the Programme")

The Republic of Sierra Leone (the "Borrower/Recipient")

and

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

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

hereby agree as follows:

### **PREAMBLE**

WHEREAS, the Borrower/Recipient intends to obtain co-financing from the National Social Security and Insurance Trust (NaSSIT), the International Finance Corporation (IFC) or other donor to supplement the financing of activities under this Programme.

WHEREAS, the Fund has agreed to extend to the Borrower/Recipient a loan (the "Loan") and a grant (the "Grant") for the purpose of financing the Rural Finance and Community Improvement Programme – Phase II described in Schedule 1 to this Agreement (the "Programme").

NOW THEREFORE, the Parties hereto hereby agree as follows:

### **Section A**

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
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 Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.



## **Section B**

1. A. The amount of the Loan is seven million three hundred and seventy-five thousand Special drawing rights (SDR 7 375 000).  
B. The amount of the Grant is seven million three hundred and seventy-five thousand Special drawing rights (SDR 7 375 000).
2. The Loan is extended on highly concessional terms, as defined in the General Conditions. The Loan granted on highly concessional terms is free of interest but bears a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and has a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be United States Dollars.
4. The first day of the applicable Fiscal Year shall be January 1<sup>st</sup>.
5. Payments of principal and service charge shall be payable on each May 1<sup>st</sup> and November 1<sup>st</sup>.
6. There shall be three Accounts:
  - "Designated Account" in United States Dollars, to be opened in a bank acceptable to the Fund.
  - "Programme Account A" in local currency, to be opened in a bank acceptable to the Fund for the benefit of the National Coordination Unit ("NCU").
  - "Programme Account B" in local currency for counterpart financing, to be opened in a bank acceptable to the Fund.
7. The Borrower/Recipient shall provide counterpart financing for the Programme in the amount of approximately four million five hundred thousand United States Dollars (USD 4 500 000) to cover taxes and duties, the fixed assets contribution to the APEX Bank "the APEX" and other Programme implementation costs, including supervision, in accordance with the approved Annual Work Plan and Budget ("AWPB") of the Programme.

## **Section C**

1. The Lead Programme Agency ("LPA") shall be Ministry of Agriculture, Forestry and Food Security ("MAFFS"), which shall have the overall responsibility for the implementation of the Programme.
2. The following are designated as additional Programme Parties: the NCU and the APEX.
3. The Programme Completion Date shall be the ninth anniversary of the date of entry into force of this Agreement.

## **Section D**

The Financing will be administered and the Programme supervised by the Fund.

**Section E**

1. The following are designated as additional grounds for suspension of this Agreement:

- (a) the Programme Implementation Manual ("PIM"), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver; suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme;
- (b) Except if directed by the Bank of Sierra Leone ("BoSL"), the core staff of the APEX (Managing Director, internal auditor and all directors positions of Banking Department, Refinancing Department, Account and Budget Department and Inspection Department have been replaced without prior no objection of IFAD;
- (c) The Agricultural Finance Facility ("AFF") Credit Policy and Procedures are modified without the prior no objection of IFAD;
- (d) The AFF audit is not provided six months after the annual closure of accounts (at the latest 30 June of each Programme Implementation year); and
- (e) The Subsidiary Agreement with the APEX, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund.

2. The following are designated as additional conditions precedent to withdrawal:

- (a) The Designated Account and the Programme Accounts have been duly opened in banks acceptable to IFAD.
- (b) A draft PIM has received the IFAD's no objection.
- (c) The Subsidiary Agreement between the NCU and the APEX has obtained IFAD's no objection.
- (d) Core staff positions of the APEX (Managing Director as well as Director of Banking Department, Refinancing Department, Account and Budget Department, Inspection Department, and Internal Auditor) have been confirmed by BoSL and obtained IFAD's no objection.
- (e) Approval from the BoSL has been received for the licensing of the APEX under the Other Financial Service Act (the "OFS Act"), 2001.
- (f) A Memorandum of Understanding ("MoU") between the BoSL and the APEX has obtained IFAD's no objection.
- (g) BoSL has provided authorization to the Financial Service Associations ("FSA") to deliver banking services on behalf of Community Banks under an Agency Agreement.
- (h) APEX has developed agriculture credit policies and procedures and has obtained the no objection by IFAD.
- (i) The Programme Steering Committee ("PSC") and the AFF Steering Committee have been established.

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

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

For the Borrower/Recipient:

Minister of Finance and Economic Development (MOFED)  
Treasury Building  
George Street  
Freetown, Sierra Leone

For the Fund:

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

This Agreement, dated [click and type], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

REPUBLIC OF SIERRA LEONE

\_\_\_\_\_  
[insert NAME of the Authorised Representative]  
[insert his title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

## Schedule 1

### *Programme Description and Implementation Arrangements*

#### I. Programme Description

1. *Target Population.* The Programme shall benefit the economically active rural poor including farmers and micro-and small-scale entrepreneurs, with special attention given to rural women and youth in the whole country covering all districts (13 districts, including rural areas of the Western District, outside Freetown) (the "Programme Area").
2. *Goal.* The goal of the Programme is to reduce rural poverty and household food insecurity on a sustainable basis.
3. *Objectives.* The objective of the Programme is to improve access to rural financial services, thereby enabling development of the agricultural sector. The Programme will up-scale the on-going Rehabilitation and the Rural Finance and Community Improvement Programme ("RFCIP") to a national level and forge linkages with other IFAD and donor supported projects, promoting long-term sustainability of the programme supported Rural Financial Institutions.
4. *Components.* The Programme shall consist of the following components:

#### **Component 1: Strengthening and Expanding the Rural Finance System**

This component has the overall objective of developing the agricultural sector in Sierra Leone and of providing access of the targeted rural population to rural finance services. It focuses on consolidating and ensuring the sustainability and impact of the Rural Financial Institutions ("RFIs") including Community Banks ("CBs"), which shall be strengthened and expected to be fully operational. Moreover, this component shall include strengthening the technical support to the RFIs through the consolidation and establishment of the APEX.

##### A. Sub-component 1: Sustainable and Autonomous RFIs

A.1 Support to the APEX. This subcomponent shall be built on the consolidation and transformation of the experiences of the Technical Assistance Agency ("TAA") and the supporting role it has provided in the field of rural financial services. The TAA will be transformed into an APEX institution, which shall be established as the key Programme Party for all services related to the continued growth and sustainability of the RFIs. The mission of the APEX is to provide vital banking and non-banking demand-driven support services to CBs and FSA with the aim of improving their operational efficiency and effectiveness, thus transforming them into efficient and sustainable financial intermediaries/institutions capable of serving the communities in which they operate. The main APEX services are expected to include: (i) administration of the Capital Investment in the CBs; (ii) administration of the AFF; (iii) the provision of supervisory and inspection functions to FSAs and CBs; (iv) the provision of technical assistance and support; (v) the Cash Management Unit; (vi) Cheque Clearing; (vii) Correspondent Banking; (viii) remittances, and (viii) Wire Transfers. The APEX shall operate under the regulatory framework of the BoSL.

A.2 Support to the CBs. The CBs are seen as a key factor to achieve outreach to rural areas through community owned and focused financial institutions. The support to CBs focuses on expanding the number and outreach of the CBs. This focus includes strengthening their autonomy and self-sufficiency so they become viable and form the critical link between the rural agricultural communities and the formal financial sector. Support to CBs shall focus on (i) contributing to the capitalization of these institutions in

order to enable them to comply with the requirements of internal regulations;  
 (ii) strengthening the management of the CBs; (iii) upgrading their infrastructure and Management Information System ("MIS"); (iv) improving the financial performance of CBs in a sustainable manner and (v) promoting financial services and products that respond to rural population and smallholder farmers' needs.

A.3 Support to FSAs. The FSAs are rural financial institutions providing loans and safe keeping services to their shareholders at village / ward level. To complement these services, FSAs will be supported to provide additional banking services on behalf of community banks under the Agency Agreement. The support to FSAs will focus on: (i) expanding the number and outreach of the FSAs; (ii) strengthening the management; (iii) upgrading their infrastructure and MIS; (iv) improving the financial performance in a sustainable manner, and (v) promoting financial services and products that respond to rural population and smallholder farmers' needs.

#### B. Sub-component 1.2 Promotion of Agricultural Financial Products

The Programme seeks to help meet the shortcoming of the limited lending to agricultural sector activities through the establishment of the AFF and through increasing the capital of the CBs, to promote and make accessible agricultural financial products. This sub-component will be financed by NaSSIT or another co-financier identified by the Borrower/Recipient.

The AFF has been designed to ensure that the rural population is enabled to access different financial services. It is envisaged that the AFF will provide three primary financial products: (i) agricultural campaign/production loans; (ii) agricultural rehabilitation loans; and (iii) agricultural equipment/processing loans.

The AFF Credit Policy and Procedures shall describe the way AFF will be administered and its products may be accessed. The APEX and the MOFED shall enter into a MoU for the management and administration of this facility.

### **Component 2: Programme Management and Coordination**

This component will ensure that the Programme is efficiently and effectively managed so that the expected results will be achieved. Gender, youth, environmental, knowledge management and communication considerations will be integrated into all aspects of the Programme management, and into activities of NCU.

## **II. Implementation Arrangements**

1. *Lead Programme Agency*. The LPA shall be MAFFS, with overall responsibility for the implementation of the Programme. MAFFS shall delegate the functional and day-to-day implementation and coordination responsibilities for the overall Programme to the on-going NCU, responsible for the implementation of all IFAD-financed projects/programmes.

2. *Programme Steering Committee*.

2.1 *Establishment*. The Borrower/Recipient shall establish a PSC which shall have overall Programme oversight and policy guidance.

2.2 *Composition.* The PSC shall be composed and co-chaired by the Ministers of MAFFS and MOFED –or their delegates- and include as members the Minister of Trade and Industry –or his/her delegate- and representatives from investors, financial institutions and beneficiaries. The Project Coordinator of the NCU shall serve as Secretary of the PSC.

2.3 *Responsibilities.* The responsibilities of the PSC shall include: (i) to provide conceptual, strategic and political guidance to the NCU for programme design, implementation and coordination of programme activities; (ii) to ensure overall conformity with Government policies and strategies; (iii) to review programme progress and performance; (iv) to approve the AWPB; and (vi) to assist the NCU in obtaining, as may be required, the Borrower/Recipient's assistance and contribution to the Programme.

### 3. *Bank of Sierra Leone.*

3.1 The BoSL holds overall oversight responsibilities for licensing, supervising and inspecting the CBs and the APEX.

3.2 A result-based MoU shall be established between BoSL and the APEX to outline implementation arrangements including the delegated authority to be given to the APEX. Prior to its signature, the MoU shall be sent to IFAD for its no objection.

### 4. *National Coordination Unit.*

4.1 *Designation and Responsibilities.* The NCU, established for the day to day implementation of activities for the all IFAD-funded projects and programmes, shall also serve as the administrative and autonomous implementation unit of this Programme. The responsibilities of the NCU remain the same as the ones established under previous Financing Agreements with IFAD. In addition, the NCU shall ensure that the financial reports that it produces for submission to IFAD, consolidate the information provided by APEX.

4.2 *Composition.* The current composition of the NCU shall be maintained for the implementation of this Programme.

### 5. *"The APEX".*

5.1 *Responsibilities.* The APEX is the key Programme Party with responsibility for oversight of the CBs and FSAs, for administration of the AFF and the capital investments in the CBs, for providing technical support and assistance services, and for reporting to MAFFS/MOFED, BOSL, the external investors in the APEX and the NPCU. The APEX will provide periodic financial reports to the NCU on the use of the financing proceeds in a format acceptable to the Fund.

5.2 *Subsidiary Agreement.* The NCU shall enter into a Subsidiary Agreement with the APEX which shall set forth the roles and responsibilities of each party in the implementation of the Programme activities and the channelling of the Financing proceeds as well as monitoring, reporting (financial and physical) and audit requirements. The Subsidiary Agreement shall be submitted to the Fund for its non-objection before signature. The Subsidiary Agreement or any provision thereof may not be waived, suspended, terminated, amended or modified without the prior consent of the Fund.

5.3 *Audits.* The APEX will be audited annually by external auditors acceptable to the BoSL and the Fund.

5.4 *APEX Staff.* APEX's core staff shall consist of a Managing Director, an Internal Auditor and Directors for the Banking Department, the Refinancing Department, the Account and Budget Department and the Inspection Department. It shall also have the support staff required for the implementation of Programme activities.

The positions of APEX core staff will be filled with the current incumbents of the correspondent positions of the TAA. The renewal of core staff's contracts –excluding the Managing Director- shall be subject to the satisfactory performance assessed annually by the APEX Managing Director. The contract renewal of the APEX Managing Director's shall be subject to satisfactory performance to be assessed annually by NCU and Board of Directors of APEX. None of the core staff may be replaced without the no objection of the Fund, except if directed by the BoSL.

5.5 *APEX Board of Directors.* The APEX will be governed by a Board of Directors comprising representatives of the public sector (MAFFS, MOFED) and private sector (FSA, CB, outside investors like NaSSIT) and individual professionals. The final composition and organization of the Board of Directors will be cleared by the BoSL, and subject to IFAD's no objection.

6. *Programme Implementation Manual.* As soon as possible, the NCU shall prepare a revised version of the PIM, used for all other IFAD-funded projects and programmes, and submit it to the Fund for its no objection. The revised PIM shall include all the arrangements required for the implementation of Programme, especially implementation of activities by the APEX.

## Schedule 2

### Allocation Table

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

| Category                             | Loan Amount<br>Allocated<br>(expressed<br>in SDR) | Grant Amount<br>Allocated<br>(expressed<br>in SDR) | % of Eligible Expenditures<br>to be Financed net of taxes,<br>co-financing, government<br>and beneficiary contribution |
|--------------------------------------|---|--|--|
| I. Civil Works                       | 915 000   | 915 000  | 100%   |
| II. Equipment, Goods and<br>Vehicles | 870 000   | 870 000  | 100%   |
| III. Capacity building               | 1 740 000   | 1 740 000  | 100%   |
| IV. Salaries and<br>Allowances       | 2 150 000   | 2 150 000  | 100%   |
| V. Operation and<br>Maintenance      | 970 000   | 970 000  | 100%   |
| Unallocated                          | 730 000   | 730 000  |  |
| <b>TOTAL</b>                         | <b>7 375 000</b>                                  | <b>7 375 000</b>                                   |  |

(b) The terms used in the Table above are defined as follows:

"Equipment, Goods and Vehicles" includes vehicles, It-equipment and equipment in support of the CBs, FSAs and APEX and the NCU.

"Capacity building" includes Training and Workshops, Consultants, Technical Assistance, studies and Radiobroadcast campaign.

"Salaries and Allowances" includes salaries and allowances for the FSAs, CBs, APEX and NCU.

(c) All eligible expenditures belonging to the categories above will be apportioned on a 50:50 *pari passu* basis between the loan and the grant.



**Schedule 3***Special Covenants*

The Borrower/Recipient undertakes the obligations set forth below, which constitute special covenants:

1. All the MoUs entered into by Programme Parties for the implementation of Programme activities shall be subject to the Fund's no objection prior to their respective signatures.
2. The APEX, CBs and FSAs shall be granted full tax exemption during the implementation of the Programme.

# Logical framework

| Overall goal: Rural poverty and household food insecurity reduced on a sustainable basis through access to rural finance for 285,000 households   |   |   |   |   |
|---|---|---|---|---|
| Indicator   | Baseline (2012)                         | Target                                  | Means of Verification   | Risks/Assumptions   |
| <ul style="list-style-type: none"> <li>Number of households with improvement in household assets ownership index, based on additional assets</li> </ul>   | 0                                       | 285,000                                 | <ul style="list-style-type: none"> <li>MDG reports</li> <li>PRSP reports</li> <li>Baseline, MTR and PCR assessments</li> <li>UNICEF reports</li> <li>Ag Household Tracking Surveys (AHTS)</li> <li>WFP reports</li> <li>VAM reports</li> </ul>                                | <ul style="list-style-type: none"> <li>Stability and peace in country</li> <li>Stable political and macro-economic environment.</li> <li>Government's monetary/fiscal policies and macro-economic reforms are conducive to poverty reduction.</li> <li>Commitment of all stakeholders (govt, donors, private sector) to participate in poverty reduction efforts</li> </ul>   |
| <ul style="list-style-type: none"> <li>% of reduction in the prevalence of child malnutrition</li> </ul>  | 34.1% (prevalence of stunting)          | 30%                                     |   |   |
| Development objective: Access to rural financial services is improved, enabling development of the agricultural sector  |   |   |   |   |
| <ul style="list-style-type: none"> <li>% of rural population using financial services (as shareholders/depositors of the 87 RFIs supported by the programme) (disaggregated by gender/age)</li> </ul> | 10% (or 50,000 households)              | 38% (or 285,000 households)             | <ul style="list-style-type: none"> <li>Apex annual and external audit reports</li> <li>Programme monitoring reports</li> <li>Programme supervision mission reports</li> <li>MTR report</li> <li>PCR</li> </ul>  | <ul style="list-style-type: none"> <li>Stability and peace in country</li> <li>Stable political and macro-economic environment</li> <li>Government's monetary/fiscal policies and macro-economic reforms are conducive to poverty reduction</li> <li>Commitment of all stakeholders (govt, donors, private sector) to participate in poverty reduction efforts</li> <li>Continued willingness of FSAs/CBs to finance smallholder farmers</li> </ul> |
| <ul style="list-style-type: none"> <li>% of CB/FSA shareholders/ depositors receiving agricultural loans (disaggregated by loan size/terms, gender, age, crop)</li> </ul>                             | 4% (or 7,000 households)                | 60% (or 105,000 households)             |   |   |
| <ul style="list-style-type: none"> <li>Increase in farm incomes through agricultural financial products</li> </ul>  | N/A                                     | US\$ 350/ha                             |   |   |
| Component 1: Consolidation of the rural finance system  |   |   |   |   |
| Sub-component 1a: Sustainable and autonomous rural financial institutions (CBs, FSAs and the APEX)  |   |   |   |   |
| Outcome: Establishment of a viable and sustainable rural financial system   |   |   |   |   |
| <b>Sustainability</b> <ul style="list-style-type: none"> <li>PAR</li> </ul>   | 4.12% (FSAs)<br>9% (CBs)                | <3%                                     | <ul style="list-style-type: none"> <li>APEX annual reports</li> <li>APEX external audit reports</li> <li>CB/FSA consolidated monthly reports</li> <li>Programme monitoring reports</li> <li>Programme supervision mission reports</li> <li>MTR report</li> <li>PCR</li> </ul> | <ul style="list-style-type: none"> <li>Stable political and macro-economic environment</li> <li>Government monetary and fiscal policies and macro-economic reforms are conducive to poverty reduction</li> <li>Absence of political interference into the autonomy of rural financial institutions</li> <li>Continued freedom to determine interest rates by rural financial institutions</li> </ul>  |
| <ul style="list-style-type: none"> <li>% of institutions at 100% OSS</li> </ul>   | 48%                                     | 100%                                    |   |   |
| <b>Quality</b> <ul style="list-style-type: none"> <li>% of CBs and FSAs express satisfaction with TAA/ Apex services</li> </ul>   | N/A                                     | 90%                                     |   |   |
| <b>Savings mobilisation</b> <ul style="list-style-type: none"> <li>Increase in share capital for new FSAs and CBs by year 5</li> </ul>  | US\$ 25,000 (FSAs)<br>US\$ 40,000 (CBs) | US\$ 40,000 (FSAs)<br>US\$ 85,000 (CBs) |   |   |
| Component 1: Consolidation of the rural finance system  |   |   |   |   |
| Sub-component 1b: Promotion of agricultural financial products  |   |   |   |   |
| Outcome: Agricultural finance facility (AFF) and CB capitalization fosters agricultural production and commercialisation  |   |   |   |   |

|  |         |           |   |  |
|--|---------|-----------|---|--|
| <b>Performance of AFF/CBs</b> <ul style="list-style-type: none"> <li>• % increase in agriculture loan portfolio (% of clients in the 87 RFIs receive agricultural loan product)</li> </ul> | 7%      | 37%       | <ul style="list-style-type: none"> <li>• BOSL annual reports</li> <li>• APEX annual reports</li> <li>• Program monitoring reports</li> <li>• Annual MIX Market reports</li> <li>• AFF audit reports</li> <li>• Supervision mission reports</li> <li>• MTR report</li> <li>• PCR</li> <li>• Crop budget reports</li> </ul> | <ul style="list-style-type: none"> <li>• Stable political and macro-economic environment</li> <li>• Government monetary and fiscal policies and macro-economic reforms are conducive to poverty reduction</li> <li>• Absence of political interference into the autonomy of rural financial institutions</li> <li>• Communities willing to buy shares in FSAs and CBs.</li> <li>• No default or undercapitalization due to non-repaid large loans</li> </ul> |
| <b>Contribution to agriculture productivity</b> <ul style="list-style-type: none"> <li>• Increase in yields/ ha</li> </ul>   | 1 MT/ha | 2.8 MT/ha |   |  |
| <b>Contribution to commercialisation</b> <ul style="list-style-type: none"> <li>• % of rice production commercialised</li> </ul>   | 10%     | 30%       |   |  |