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Enabling poor rural people
to overcome poverty

Sierra Leone

Rural Finance and Community Improvement Programme - Phase II

Negotiated financing agreement

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 1st.
5. Payments of principal and service charge shall be payable on each May 1st and November 1st.
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 Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	% of Eligible Expenditures to be Financed net of taxes, co-financing, government and beneficiary contribution
I. Civil Works	915 000	915 000	100%
II. Equipment, Goods and Vehicles	870 000	870 000	100%
III. Capacity building	1 740 000	1 740 000	100%
IV. Salaries and Allowances	2 150 000	2 150 000	100%
V. Operation and Maintenance	970 000	970 000	100%
Unallocated	730 000	730 000	
TOTAL	7 375 000	7 375 000	

(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.