Enabling poor rural people
to overcome poverty

Sierra Leone

Rural Finance and Community Improvement Programme – Phase II (RFCIP2)

Detailed design report

Main report and appendices

2851-SL

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Appendices

Currency equivalents

Currency Unit	=	Sierra Leonean Leone (Le)
US$1.0	=	Le 4,350

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

ABC	Agricultural Business Centre
AfDB	African Development Bank
ASREP	Agricultural Sector Rehabilitation Project
AWPB	Annual Work Plan and Budget
BOSL	Bank of Sierra Leone
CB	Community Bank
CBO	Community-Based Organisation
COSOP	Country Strategic Opportunities Paper
CPMT	Country Programme Management Team
CSO	Civil Society Organisation
DC	District Council
DAO	District Agricultural Officer
ERR	Economic Rate of Return
ESRN	Environmental and Social Review Note
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FSA	Financial Services Associations
SCP-GAFSP	Global Agriculture and Food Security Programme
GoSL	Government of Sierra Leone
GIZ	German Technical Cooperation (Gesellschaft für Internationale Zusammenarbeit)
IEC	Information, Education and Communications
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation (World Bank Group)
IMF	International Monetary Fund
IRR	Internal Rate of Return
IVS	Inland Valley Swamp
IRCBP	Institutional Reform and Capacity Building Project
LC	Local Council
LDC	Least Developed Countries
LGA	Local Government Act 2004
LIFDC	Low-Income Food Deficit Country
LWDD	Lands and Water Development Division (MAFFS)
MAFFS	Ministry of Agriculture, Forestry and Food Security
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MEYS	Ministry of Education, Youth and Sports
MOFED	Ministry of Finance and Economic Development
MFI	Micro-Finance Institution
MFMR	Ministry of Fisheries and Marine Resources
MIALGRD	Ministry of Internal Affairs, Local Government and Rural Development
MLCPE	Ministry of Lands, Country Planning and Environment
MOH	Ministry of Health
MSWGCA	Ministry of Social Welfare, Gender and Children's Affairs
MoTI	Ministry of Trade and Industry
MTR	Mid-term Review
NaCSA	National Commission for Social Action
NAFSL	National Association of Farmers of Sierra Leone
NAIP	National Agricultural Investment Plan
NARCC	National Agricultural Research Coordinating Council
NASSIT	National Social Security and Insurance Trust
NDB	National Development Bank
NGO	Non-Governmental Organisation
NPCU	National Programme Coordination Unit (MAFFS)

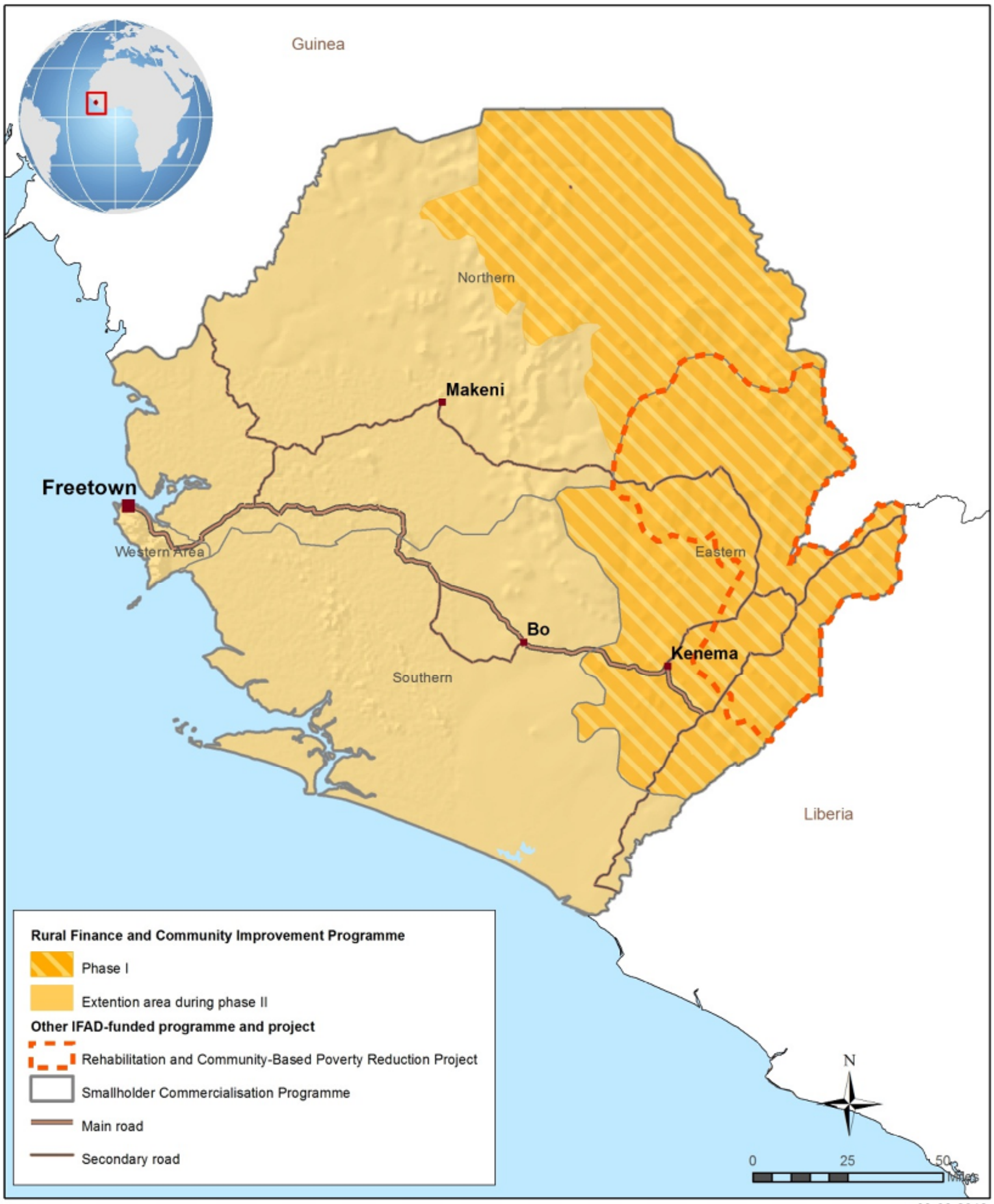
NPV	Net Present Value
OSS	Operational Self-Sufficiency
PCR	Programme Completion Report
PDD	Project Design Document
PDT	Project Development Team
PEMSD	Planning, Evaluation, Monitoring and Statistics Division
PFMR	Public Finance Management Reform
PRSP	Poverty Reduction Strategy Paper
RB-COSOP	Results Based Country Strategic Opportunities Paper
RCPRP	Rehabilitation and Community-based Poverty Reduction Project
RFCIP	Rural Finance and Community Improvement Programme
RFI	Rural Financial Institution
ROA	Return on Assets
ROE	Return on Equity
SCP-IP	Smallholder Commercialisation Programme-Investment Plan
SEED	Seed Enterprise Enhancement and Development Project
SLARI	Sierra Leone Agricultural Research Institute
SLRA	Sierra Leone Roads Authority
TAA	Technical Assistance Agency (for CBs)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	US Agency for International Development
USD	United States Dollar
WB	World Bank
WDC	Ward Development Committee
WFP	World Food Programme
WP	Working Paper

Map of the programme area

Republic of Sierra Leone

Rural Finance and Community Improvement Programme - Phase II

Design report



03-08-2012

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.

IFAD *Map compiled by IFAD*

Executive Summary[1]

A. Background and rationale

In line with the current 2010-2015 COSOP, a second phase Rural Finance and Community Improvement Programme (RFCIP2) has been jointly conceived by IFAD and the Government of Sierra Leone to build on the achievements and success of the RFCIP1. Thereby strengthening and broadening the rural financial system in Sierra Leone and **establishing stronger linkages with the agricultural sector**. This follows the recommendation arising from the RFCIP mid-term review, and the request by the Government to expand the efforts in increasing access to rural finance and agricultural financial products. 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.

B. Rural context, geographic area of intervention and target groups

Rural context. Rural poverty in Sierra Leone is widespread and deep. About 26 per cent of the people are food-poor and have difficulty meeting dietary requirements, while 70% live below the poverty line. This poverty is directly linked to the problems faced by agricultural production and commercialization. Food insecurity is also more pronounced in households headed by women than in those headed by men. At the same time, there is widespread regional disparity in the incidence of poverty, with rural areas, where two thirds of the population live, being the hardest hit.

Agriculture potential. The agricultural sector is the priority sector for poverty alleviation in Sierra Leone today, evidenced by the allocation of 10% of the national budget to the Ministry of Agriculture, Forestry and Food Security (MAFFS), in line with the Maputo Declaration. The sector has also been growing in strength and prospects for further growth looks promising. Between 2008 and 2009, the sector grew by 4%. Furthermore, all the sub-sectors experienced output growth, especially crop production with a 5.2% growth rate, having benefitted from such policy interventions like the Government's commercialization policy (farm mechanization, processing and marketing).

To capture the benefits of this momentum, constraints faced by farmers today still need to be addressed. Among the constraints faced by farmers, access to inputs is considered as a major hurdle preventing improved productivity and production increases. Value-addition is low in the absence of modern processing equipment, and inadequate rural infrastructure (roads) confines farmers' access to markets. More broadly, farmers also suffer from limited rural services, including access to financial services (it is estimated that currently, only 5% of farmers have access to financial services) which has huge potential to address some of the common constraints faced.

Institutional context. The rural and agricultural sector effort is guided by multiple strategic directives, led by the Ministry of Agriculture, Forestry and Food Security (MAFFS); this has resulted in the National Sustainable Agriculture Development Plan 2010-2030 (NSADP) and the **Smallholder Commercialisation Programme** (SCP) to operationalize the plan. Within this overarching framework, the provision of better access to financial services specifically tailored to the rural sector is a prominent and critical component. It would complement the policy orientations that seek to foster agricultural productivity and promote value chain development and commercial agriculture through the private sector. As such, the rural finance agenda has taken on increasing prominence, and is championed by not only MAFFS, but the Ministry of Finance and Economic Development (MOFED) and the Bank of Sierra Leone (BOSL). The expansion of the rural financial network through the rapid

[1] Mission composition: Mr. G. Perrett, Rural Finance Specialist (IFAD consultant); Mr. D. Selormey, Central Bank Specialist (IFAD consultant); Mr. I. Otchere, Rural Bank Specialist (IFAD consultant); Mr. R. Sabrie, Economist, (FAO Investment Centre); Ms. T. Lampe, ACPM (IFAD); and Mr. H. Boirard, CPM (IFAD). The team was ably complimented by staff from the Technical Assistance Agency (TAA) led by Mr. M. Sesay, Rural Finance Officer (MAFFS/NPCU). The mission also worked closely with representatives from the Ministry of Agriculture, Forestry and Food Security (MAFFS), and the Bank of Sierra Leone (BOSL).

growth and establishment of Financial Services Associations (FSAs) and Community Banks (CBs) is evidence of this national commitment.

Geographic scope. The RFCIP2 will be a nation-wide programme, covering all districts in Sierra Leone (13 districts, including rural areas of the Western District, outside Freetown). Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the ongoing IFAD-supported operations, namely RFCIP1, RCPRP and SCP-GAFSP, to build on what has already been achieved and to maximise impact, e.g. in targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

Targeting strategy. As part of the core targeting strategy, ensuring pro-poor and farmer-friendly financial products will be emphasized. The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger 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" due to lack of funds. Assuming that each FSA and CB will be able to improve their community outreach, the RFCIP2 will reach some 285,000 households during its 9 year span with at least 1 financial product (more than 35% of the rural household population). The majority of these will be the poor and marginalized. The RFCIP2 builds on the pro-poor approach (which incorporates GALS) of RFCIP1, and complements the effort of such projects like the RCPRP which works with the poorest strata of the rural population through provision of financial products to this increasingly bankable population. Special efforts have been made to tailor financial products to meet their 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.

C. Key Project Objectives

Programme strategy and vision. The main focus of the programme seeks to strengthen the capacity of the finance service providers in rural areas, in order to increase their outreach and provide demand-driven services to rural communities. A key feature of the programme approach is that it is business-oriented. This begins at the grassroots financial institutions level where FSAs and CBs are established on the basis of sound business plans and managed on business principles. This approach also will be evident in the agricultural financing to be rolled out – i.e. promoting farming as a business and subsequently as an eligibility criteria to access loan financing. The programme seeks to achieve this by adopting a mutually reinforcing and holistic approach, consolidating the support to the financial services sector as the primary programme component, complemented by technical assistance services (through the APEX Bank (the APEX). Liquidity will be provided by the capitalisation of the Community Banks so as to meet the BOSL minimum capital requirements and the establishment of an agricultural finance facility (AFF) with an exclusive focus on agricultural financing.

Of particular relevance is the complementary geographical and financial model of CBs and FSAs. These institutions provide the means to respond to the rural sector's needs through their national coverage. This is in sharp contrast to commercial banks, who have very limited rural outreach, and interest, in agriculture primarily due to the perceived high risk, low profitability and hefty transaction costs associated with the agricultural sector. In support and response to Government's prioritisation of the agricultural sector for growth and food security, the programme plans to make available USD 8,000,000 in liquidity to capitalise the CBs (USD 3,000,000), fund the AFF (USD 3,000,000) and to provide working capital to the APEX (USD 2,000,000). This capital will be provided by external investors, with the RFCIP2 programme providing an additional USD 1,000,000 in capital in the form of fixed assets transferred from RFCIP1. The APEX will in turn invest in the CBs, thereby enabling them to meet the minimum capital requirements. The CBs will pay a dividend to the APEX in return for this investment and then when the APEX is sufficiently profitable, it will pay a dividend to the external investors. In parallel, the APEX will provide debt capital to the CBs and FSAs through the AFF. This flow of capital will make financial services available to 285,000 households over the life of the programme.

Aligned with GOSL priority objectives as articulated in the PRSP and NSADP, the overall **programme goal** of the proposed second phase 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, enabling development of the agricultural sector. In order to fill in the void in the districts not covered by RFCIP and also to consolidate the gains made so far in the RFCIP districts, the proposed programme will up-scale the on-going RFCIP1 to a national level and will forge linkages with other IFAD and donor supported projects. These will strengthen and expand the rural financial system, so that it can continue to meet on a long term sustainable basis the needs of the rural communities it serves.

D. Components

Component 1: Consolidation of the rural finance system. The overall outcome of this component is that financial products are developed to foster agricultural production and its commercialisation, and that at least 35% of the rural population have access to rural finance services. By so doing, farmers will be in a position to improve their agricultural production potential as they will have the financial resources to buy inputs that will lead to increased production output. To achieve this, the component is comprised of two sub-components: (i) sustainable and autonomous rural financial institutions; and (ii) promotion of agricultural financial products through the AFF and the capitalisation of the CBs. This component therefore focuses on consolidating and ensuring the sustainability and impact of the eighty-seven (87) grassroots financial institutions (including four regional community banks) that are expected to be operational by end 2014. Additionally, it will include strengthening and broadening the technical support to these institutions in the form of the existing TAA/APEX that has demonstrated capacity to provide support services, including some oversight functions delegated by the BOSL. The dual approach of promoting sustainability of both FSAs and CBs, combined with strengthening of the TAA/APEX to provide the necessary support services, establishes the foundation for growth in the rural financial system. Through these measures, the following functions will be provided. (i) provision of technical support to ensure sound management and good performance of these institutions. (ii) effective compliance with financial regulations (TAA/ APEX to provide inspection and data collection functions for CBs/ FSAs as agreed with the BOSL); and (iii) availability of required liquidity to respond to rural population needs in terms of agricultural and rural loan financing, especially term financing to be provided through the CBs and the FSAs, as enumerated above.

The comprehensive approach in strengthening and broadening the outreach of the rural financial system places considerable emphasis on achieving sustainability and having a clear exit strategy, as reflected in the APEX, CBs and FSAs business plans. Operational self-sufficiency should be reached at the minimum five years before the end of the project, leaving a reasonable length of time to work out any issues that may arise, establish a strong data base and embed a successful operational model that could be replicated elsewhere.

Component 2: Project Management and Coordination. This component will ensure that the programme is efficiently and effectively managed to achieve the expected results. Gender, youth, environmental, knowledge management and communication considerations will be integrated in all aspects of programme management, and in the activities of the NPCU. The performance indicators of this component will include quality and timely execution of annual work plans and budgets, prompt submission of progress reports and the preparation of annual audit reports. An operational M&E system capable of tracking key indicators and actual levels of disbursements in line with budgeted forecasts will be developed. In addition, this component will support further policy dialogue and exchanges, through institutional support to the BOSL in terms of capacity building and policy review.

The programme's components have been designed to be complementary and mutually reinforcing. The mix of activities to be implemented will be determined through a participatory and demand-driven process, commencing with a 2 day workshop at the start of the programme. The programme will balance the demands of the rural sector for technical assistance and funding with the capacity of the programme to deliver so as to avoid an overstretch on the available resources, in terms of both human and financial capital.

Gender strategy. The programme will support gender mainstreaming, empowerment of women, and specific targeting measures for youth, to ensure maximum participation of these vulnerable groups in various activities. Measures include targeted and tailored CB and FSA products developed for women and youth; adoption of the Gender Action Learning System (GALS); establishment of quotas for women and youth participation in programme activities (e.g. ensuring gender balance in bank staff and board); provision of literacy and numeracy training for women's saving/borrowing groups; ensuring outreach to the poor and to women through communication/ sensitization campaigns; and emphasis on gender and youth-disaggregated M&E.

E. Benefits

The expected principal benefits of RFCIP2 over the 9 year lifespan will be as follows: i) 285,000 rural households having access to at least 1 financial product; ii) 175,000 rural loans extended nationwide; iii) USD 72,000,000 in incremental lending to the rural sector; iv) 87 sustainable and profitable FSAs and CBs with improved financial performance by 2017; v) a sustainable apex organization 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.

F. Implementation arrangements

Overall programme oversight will be undertaken by a Programme Steering Committee (PSC), which will be co-chaired by the Ministers of MAFFS and MOFED. The committee, which will have the existing National Programme Coordination Unit (NPCU) as its Secretariat, will be responsible for providing overall policy guidance, and the NPCU per se will monitor the implementation of the decisions made by the Programme Steering Committee. As with RFCIP1, the Ministry of Agriculture, Forestry and Food Security will be the lead implementing agency with overall responsibility for RFCIP2; MAFFS will, however, delegate the function and day-to-day implementation and coordination of the programme to the on-going NPCU that currently is responsible for IFAD-financed projects. For specific rural finance activities (provision of services to CBs/FSAs, capitalisation of the CBs and administration of the AFF) of a technical nature, responsibilities are delegated to the APEX as the key service provider. On the whole, the programme will also be supported by key strategic institutional partners such as MOFED, MOTI, BOSL, the private sector (especially the external investors), and donors, so as to ensure an inclusive and harmonised approach to rural finance.

G. Links with other initiatives

The Programme will establish close linkages with on-going projects, programmes and organisations that are active in promoting rural finance. Also, where there are opportunities to complement agricultural activities with rural finance – i.e. where there are opportunities to facilitate rural finance outreach to smallholder farmers in particular. These include the RFCIP, RCPRP, SCP-GAFSP, and others.

H. Costs and financing

The total programme cost is estimated at USD 38.15 million, over a period of 9 years. IFAD's contribution is USD 22.3 million (58.5% of total cost), in the form of a 50% loan and 50% grant. The remainder of the financing is external investors (USD 7,900,000) from government contribution (12% of total cost), as well as beneficiary contribution (9% of total cost).

I. Risks

Key risks to implementation include: i) an unconducive policy environment and/or political interference; ii) the capacity of CBs and FSAs to maintain healthy portfolios and manage their activities in a business-like fashion; and iii) capacity to translate increased funding into financing for the agricultural sector and iv) defaults by the CBs and FSAs. The mitigating measures will include extensive policy dialogue across multiple stakeholders, support to the APEX in providing assistance to the CBs and FSAs, recruitment of well-qualified staff, close monitoring by both the APEX and the BOSL, and a heavy and ongoing reliance on capacity building.

J. Environment

The Programme supplements the on-going IFAD-supported programmes, including RFCIP, RCPRP and the SCP-GAFSP, by facilitating access to financial services for rural and agricultural communities. It should be noted that these projects/ programmes have had environmental impact assessments that have deemed their interventions favourable. This programme seeks to assist farmers and the rural poor on a national scale by support to agriculture and income-generating activities through the AFF and the capitalisation of the CBs. By the nature and extent of the likely environmental effects, RFCIP2 is classified as a Category B programme in line with IFAD's EA procedures. The potential negative environmental effects are assessed to be within controllable limits.

K. Knowledge management, innovation and scaling up

A knowledge-sharing and learning culture within the programme, and with all stakeholders will be encouraged. There is a need for sharing best practices and lessons learnt with other partners in the agriculture sector, and also with IFAD-supported projects in the West and Central Africa region through the IFADAfrica network. Through a combined effort, the Planning, Evaluation, Monitoring and Statistics Division (MAFFS) and the NPCU for IFAD-funded projects/ programmes should be more pro-active in capturing experiences and lessons generated by other government and development partner-financed projects/programmes. Thereby ensuring integration of M&E and KM across projects/ programmes that will be fundamental to further learning and inform future interventions by IFAD, government and other development partners.

Over the longer term, the programme will seek to encourage expansion and replication of positive and successful experiences, based on lessons learned, and where the conditions prevailing are favourable. It should be noted that the expectation is that all rural financial institutions will be autonomous five years before the end of project; thus instilling a commitment to agricultural financing. The importance of building these linkages will be embedded in the working and operating modality of the institutions over the long-run and on a sustainable basis.

Logical Framework

Indicator	Baseline (2012)	Target	Means of Verification	Risks/Assumptions
Overall goal: Rural poverty and household food insecurity reduced on a sustainable basis through access to rural finance for 285,000 households				
• Number of households with improvement in household assets ownership index, based on additional assets	0	285,000	• MDG reports • PRSP reports • Baseline, MTR and PCR assessments • UNICEF reports • Ag Household Tracking Surveys (AHTS) • WFP reports • VAM reports	• Stability and peace in country • Stable political and macro-economic environment. • Government's monetary/fiscal policies and macro-economic reforms are conducive to poverty reduction. • Commitment of all stakeholders (govt, donors, private sector) to participate in poverty reduction efforts
• % of reduction in the prevalence of child malnutrition	34.1% (prevalence of stunting)	30%		
Development objective: Access to rural financial services is improved, enabling development of the agricultural sector				
• % of rural population using financial services (as shareholders/depositors of the 87 RFIs supported by the programme) (disaggregated by gender/age)	10% (or 50,000 households)	38% (or 285,000 households)	• Apex annual and external audit reports • Program monitoring reports • Project supervision mission reports • MTR report • PCR	• Stability and peace in country • Stable political and macro-economic environment • Government's monetary/fiscal policies and macro-economic reforms are conducive to poverty reduction • Commitment of all stakeholders (govt, donors, private sector) to participate in poverty reduction efforts • Continued willingness of FSAs/CBs to finance smallholder farmers
• % of CB/FSA shareholders/ depositors receiving agricultural loans (disaggregated by loan size/terms, gender, age, crop)	4% (or 7,000 households)	60% (or 105,000 households)		
• Increase in farm incomes through agricultural financial products	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**				
Sustainability • PAR	4.12% (FSAs) 9% (CBs)	<3%	• APEX annual reports • APEX external audit reports • CB/FSA consolidated monthly reports • Program monitoring reports • Project supervision mission reports • MTR report • PCR	• Stable political and macro-economic environment • Government monetary and fiscal policies and macro-economic reforms are conducive to poverty reduction • Absence of political interference into the autonomy of rural financial institutions • Continued freedom to determine interest rates by rural financial institutions
• % of institutions at 100% OSS	48%	100%		
Quality • % of CBs and FSAs express satisfaction with TAA/ Apex services	N/A	90%		
Savings mobilisation • Increase in share capital for new FSAs and CBs by year 5	US$ 25,000 (FSAs) US$ 40,000 (CBs)	US$ 40,000 (FSAs) 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 capitalisation fosters agricultural production and commercialisation**				

Performance of AFF/CBs • % increase in agriculture loan portfolio (% of clients in the 87 RFIs receive agricultural loan product)	7%	37%	• BOSL annual reports • APEX annual reports • Program monitoring reports • Annual MIX Market reports • AFF audit reports • Supervision mission reports • MTR report • PCR • Crop budget reports	• Stable political and macro-economic environment • Government monetary and fiscal policies and macro-economic reforms are conducive to poverty reduction • Absence of political interference into the autonomy of rural financial institutions • Communities willing to buy shares in FSAs and CBs. • No default or undercapitalization due to non-repaid large loans
Contribution to agriculture productivity • % increase in yields/ ha	N/A	20%		
Contribution to commercialisation • % of rice production commercialised	10%	30%		

I. Strategic context and rationale

A. Country and rural development context

Introduction

1. In line with the current 2010-2015 COSOP, a second phase Rural Finance and Community Improvement Programme (RFCIP2) has been jointly conceived by IFAD and the Government of Sierra Leone to build on the achievements and success of the RFCIP, thereby consolidating the rural financial system in Sierra Leone and **establishing stronger linkages with the agricultural sector**. This follows the recommendation arising from the RFCIP mid-term review, and the request by the Government to consolidate the efforts in increasing access to rural finance and agricultural financial products. 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.

Country economic background

2. Sierra Leone belongs to the group of the Least Developed Countries (LDC), and participates in the Highly Indebted Poor Countries (HIPC) initiative. The country meets FAO criteria as a Low-Income Food Deficit Country (LIFDC), and ranked 180 out of 187 under the UN Development Programme's (UNDP) *Human Development Report 2011*. Its population is estimated at 5.8 million (2010) with an average annual growth rate of 2.1 percent. About two-thirds of the population live in rural areas and about 70 percent live below the poverty line, most in severe poverty; about 60 percent of the youth (non-school-going 15-year olds to 35-year old adults) are either unemployed or under-employed; in 2009, life expectancy at birth was 48 years and adult literacy was 41 percent of the adult population; the female literacy rate was 26.8 percent.

3. In 2002, Sierra Leone emerged from a civil war which lasted for almost eleven 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. Despite these achievements however, remnants remain of the prolonged and difficult period; large parts of the rural infrastructure, especially feeder roads have yet to be rehabilitated, and social and community organisations are still weak; however, whilst the rural economy has yet to pick-up greater momentum, there are promising indicators that this is starting to take place.

4. The country experienced an average annual growth rate of 2.1 percent[2], which is projected to double by 2050. Per capita income has been increasing over time from USD 490 (2000) to USD 808 (2009)[3]. Agriculture – including fisheries and forestry - contributes about 46 per cent of GDP and provides employment to about 70 per cent of the population, mostly small-scale farmers and predominantly women. As such, it is expected that efforts in this sector will have a major contributing impact on the country economic situation, and will be translated into improved livelihoods for the rural population.

Agriculture and rural poverty

5. **Rural poverty.** Rural poverty in Sierra Leone is widespread and deep. About 26 per cent of the people are food-poor and have difficulty meeting dietary requirements, while 70 per cent live below the poverty line. This poverty is directly linked to the problems faced by agricultural production and commercialization. Food insecurity is also more pronounced in households headed by women than in those headed by men. At the same time, there is widespread regional disparity in the incidence of poverty, with rural areas, where two thirds of the population live, being the hardest hit.

[2] Human Development Report (HDR) 2011
[3] HDR 2002 and 2011

6. **Agriculture potential**. The agricultural sector is the priority sector for poverty alleviation in Sierra Leone today, evidenced by the allocation of 10% of the national budget to the Ministry of Agriculture, Forestry and Food Security (MAFFS), in line with the Maputo Declaration. The sector has also been growing in strength and prospects for further growth look promising. Between 2008 and 2009, the sector grew by 4 percent. Furthermore, all the sub-sectors experienced output growth, especially crop production with a 5.2 percent growth rate, having benefitted from such policy interventions like Government's commercialization policy (farm mechanization, processing and marketing).

7. Staple grains and export crops contribute about 30 and 50 percent of the agricultural GDP respectively, with further potential for growth as the agro-industrial sector grows (e.g. Addax for bio-fuel; oil palm and poultry industry, etc.). Furthermore an estimated 300,000 smallholder farmers, cultivating between 1 and 3 hectares, are also reaping rewards, moving from a subsistence level of farming towards greater commercialisation of produce. Private sector medium and large scale agricultural production schemes have been established for food crops, as well as tree and cash crops for both domestic and export markets. It is through these evolving partnerships and the changing mind-set towards more business-oriented agriculture, that smallholder farmers are gaining a better footing. Therefore, although private investments by larger-scale farmers and enterprises are still low but improving, **interest in Sierra Leone in investing in agriculture and agribusiness is increasing**.

8. To capture the benefits of this momentum, constraints faced by farmers today still need to be addressed. Among the constraints faced by farmers, access to inputs is considered as a major hurdle preventing improved productivity and production increases. Value-addition is low in the absence of modern processing equipment, and inadequate rural infrastructure (roads) confines farmers' access to markets.

9. More broadly, farmers also suffer from limited rural services, including access to financial services (it is estimated that currently, only 5 percent of farmers have access to financial services). Agricultural credit and microfinance for investments are often not available. The number of financial institutions in the formal and semi-formal sectors is small, their outreach to rural areas is extremely limited, and their services are generally rudimentary. Commercial banks have a near-zero outreach to rural areas (due to perceived high risk/ low profitability of the agricultural sector and high associated transaction costs).

10. This emerging environment offers an opportunity for the Programme to expand rural financial services to rural farmers and entrepreneurs, with special attention to women and youth, and to strengthen the linkages with FBOs and ABCs in order to enable capturing of economic opportunities, especially in the agricultural sector.

National strategies and the institutional framework

11. The PRSPII 2008-2012 was launched in 2008 as the "Agenda for Change" by the present Government, and which focused on four priorities: power, transportation, agriculture and human development. The PRSPII is built on a problem-and-needs analysis, as well as the progress made and lessons learnt from implementation of the previous PRSP.

12. **Agricultural Policy**. The Ministry of Agriculture, Forestry and Food Security (MAFFS) has developed the National Sustainable Agriculture Development Plan 2010-2030 (NSADP) under the umbrella of the Comprehensive Africa Agriculture Development Programme (CAADP) with the broad involvement of all stakeholders. The NSADP sets out ambitious targets: (i) Increase in the agricultural sector growth from its current 4% to 7.7% per annum by 2015; and (ii) increased incomes of farming households by 10 percent and increased household food security by 25 percent. In order to reach these targets, the MAFFS's main strategic policy orientations are to foster agricultural productivity, to promote commercial agriculture through the private sector, and to improve research and extension services. In particular, the MAFFS approach has a strong focus on private sector and value-chain development.

13. At the core of the NSADP is the **Smallholder Commercialisation Programme** (SCP). MAFFS has developed a USD403 million **National Agricultural Investment Plan (NAIP)** for the implementation of the SCP covering the years 2010-2014 divided into six components: (i) Improving smallholder production and commercialisation by setting up 2,750 FBOs and building 650 Agricultural Business Centres (ABC) nation-wide; (ii) Developing small scale irrigation to boost rice production on 18,000ha of land; (iii) **Providing better access to financial services specifically tailored to rural farming groups or individuals through the creation of 130 new Financial Services Associations (FSA);** (iv) Improving access to markets by rehabilitating and maintaining 4,000km of feeder roads; (v) Providing a social protection safety net to vulnerable households to increase food security and nutrition for 1,5 million people and (vi) Implementation and support. All on-going and future Government and donor funded projects and programmes in the smallholder agricultural sector will be aligned with the NAIP.

14. **Private sector policy**. The Ministry of Trade and Industry (MOTI) has developed a Private Sector Development Strategy for Sierra Leone fostering foreign and domestic investments in all sectors of the economy. This is complemented by the establishment of the Sierra Leone Investment and Export promotion Agency (SLIEPA) in 2008, to promote private sector investments in Sierra Leone. With emphasis on the agricultural sector, MAFFS also established in 2008, the Sierra Leone Centre for Agribusiness Development (SLCAD) whose purpose is to specifically promote private investment in the sector. SLCAD brings together various stakeholders of the agricultural sector, and is currently developing an Integrated Programme for Private Investment in Agriculture, an agricultural value chain development programme for input supply, agro-processing and agricultural finance.

15. Over the past years, the policy and legal environment for making business in Sierra Leone has improved, which has attracted medium and large scale agricultural enterprises. Sierra Leone's 'Doing Business' ranking improved from 150 to 141 in one year alone (between 2011 and 2012, out of 183 countries).

16. **Financial sector policy**. The Government, in partnership with the Bank of Sierra Leone (BoSL) has highlighted the importance of promoting financial sector development to support overall national growth objectives and poverty reduction strategies. It is well recognized that financial sector development, especially improving access to finance by building and sustaining a responsive financial sector, is an important aspect in prioritization of the agricultural sector and encouraging private sector growth; i.e. related activities can only be financed with an efficient and effective financial system. These principles are thus articulated through Government's Financial Sector Development Plan (FSDP).

17. It is worth mentioning that the **Community Bank and FSA models are fully integrated into the national policy, as is specifically articulated in the FSDP**. Integral to the FSDP are actions geared towards improving the efficiency, quantity and quality of services provided by the financial sector through more effective financial intermediation, reduction of transaction costs, and direction of resources into productive investment. It should be highlighted here that **increased access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks is one of four identified priority areas in the FSDP**. Effectively, the CB/FSA network has become a critical institutional policy mechanism to alleviate national poverty.

18. Recently, the GOSL has taken a decision to revive the National Development Bank (NDB), with a new mandate, concept and ownership. The proposed new mandate thus has a very clear focus on the agricultural sector. The bank will function as a development financial institution geared towards: i) agricultural development; ii) agro-industry; and iii) SMEs. This strategy will compliment rather than compete with RFCIP2, since the latter focuses primarily on smallholder agriculture, although there may be some overlap in the larger farmer/larger SME segments. In the main, though, this will be avoided by the RFCIP2's focus on poverty alleviation, avoidance of political influence and the smaller loan sizes.

The current status of rural finance in Sierra Leone

19. More than 70% of Sierra Leone's population are in rural areas and 70% live below the national poverty line of $1.25 per day. The main economic activity of the rural population is subsistence farming. These factors, combined with very poor infrastructure, a low level economic activity and a widely diversified population result in high transaction costs. These factors militate against the extension of the right type of financial services into the rural areas needed to promote intermediation and efficiently allocate resources to the rural economic actors in order to accelerate rural economic growth and development. This gap in financial services creates room for informal sector money lenders whose services do not meet the needs of the farmers, since they lend for very short-term and at very high interest rates. The main players in the financial sector are the following.

20. **Commercial Banks.** The formal financial sector in Sierra Leone has always been dominated by commercial banks. As at 31/12/2011 there were 13 Commercial banks[4] with a branch network of 87 branches located mainly in District Capitals and some semi-urban centres. Forty-six (46) (i.e. 52%) of the branches are located in Freetown; no other District has more than one branch of a bank. What is apparent is that commercial banks have not extended services deep enough into the rural areas. Provided that most of these banks (i.e. 10 out of 13) are foreign owned with foreign shareholdings[5] ranging between 81% and 100%, there is little incentive for such foreign-owned banks to extend branches into rural communities with poor infrastructure and low economic activity.

21. In terms of product offerings, even without empirical evidence, the target clientele of commercial banks are not the small and micro operators, nor rural farmers. Indeed, without a presence in the rural areas there has been no incentive to formulate products for small rural economic operators.

22. **Microfinance Institutions.** According to the BoSL Annual Report for 2011 there were six (6) licensed deposit-taking MFIs with 62 branches. Three of these, Brac, Finance Salone, and Salone Microfinance Trust Limited have 42, 11 and 5 branches each respectively (most of these branches are urban and semi-urban based). The key MFIs receive external funding[6] support from institutions like, UNCDF, Kiva and CORDAID to finance their lending activities. BRAC in particular is mainly funded by BRAC International. In addition some of them take an upfront deposit, between 20% - 30% of the loan granted, as a form of cash collateral from loan beneficiaries. The main business model the MFIs use is the group lending approach, since most of their clients do not own property to use as collateral.

23. The MFIs in Sierra Leone extend credit which is repayable by small monthly instalments without any grace period. This was confirmed by BRAC, ARD and Finance Salone branches in Kenema. The terms and conditions on which the MFIs extend credit to commercial enterprises are not suitable for agricultural lending due to their short maturity, frequent repayments, and the lack of any grace period. In addition, most of the MFIs prefer to deal with female customers (51% to 100% of active borrowers are female). This means that a significant section of the population (males) is not factored into their programmes and services. **From the information obtained, the services of the MFIs do not address the needs of the majority of rural people, who are essentially small scale farmers.**

24. **Financial Services Associations (FSAs)**. FSAs registered with the Ministry of Social Welfare continue to mobilize savings in the form of equity. Products and services offered in rural areas are mainly: (i) safekeeping, (ii) micro-loans, and (iii) money transfers. Shareholders can access loans for a maximum amount equivalent to 4 times his/her share-capital. The co-financed IFAD and Italian Development Cooperation project introduced the first FSAs into Sierra Leone,

[4] Source: BOSL Annual Report 31/12/2011
[5] MITAF II Joint Project Document
[6] http://www.mixmarket.org/mfi/country/Sierra%20Leone

adapting the model from the Kenya original. The model has been repeatedly improved upon and replicated/ up scaled under the IFAD-supported RFCIP. FSAs are rural financial institutions providing a range of financial services to their shareholders, who own the institutions. They aim at establishing locally accessible, locally owned and operated financial institutions. Loans to shareholders are financed principally from locally mobilized equity, which constitutes the village banks' risk capital. The loans are guaranteed by the group lending mechanism, or by the bank's knowledge of the individual borrower, deriving from the close relationships and local knowledge held by the FSAs. The loans can be accessed only by shareholders, and the loan size is based on the individual share value (up to 4 times the value of the share).

25. At present, a total of 36 FSAs are operational under RFCIP and 6 under SCP-GAFSP. By end 2015, it is expected that the number of operational FSAs will reach 65.

26. The strength of the current FSA model is in its business-oriented and results-oriented approach. The sustainability of an FSA relies upon a high degree of professionalism and competency, as well as the close interest shareholders have in the institution, since their own capital is at risk. In addition, a high level of outreach must be linked to market-oriented business plans to ensure a sound loan portfolio is maintained. Despite this however, weaknesses remain; at present and on average, only 30% of FSA members are able to access loans, which detracts from the attractiveness of the institution for members of the community and also limits further membership growth. Unfortunately, for the time being, the situation is mainly an outcome of the limited capital available to the FSAs to on-lend to their members. It is, therefore, critical that in order to continue to meet the needs of the communities, FSAs must have ready access to capital. This need, though, must be balanced against the importance of shareholders maintaining a high degree of ownership in the FSAs.

27. **Community Banks (CBs)**. CBs, which are regulated by the BOSL, are now offering the following products and services in rural areas: (i) deposits, (ii) remittances, (iii) payment systems, (iv) loans, (v) client financial education and (vi) small business development.

28. Currently there are 13 CBs operating as part of the formal financial sector (a further 9 CBs are expected to be operational by end 2014). The first 6 were created between 2003 and 2008 through funding provided by the BOSL. They are located throughout the provincial districts of the country (3 in the Northern provinces, 2 in the Southern provinces and 1 in the Eastern provinces) to stimulate rural communities to rebuild their lives through access to financial services. Whilst the initial model was innovative, the performance of the 6 CBs established by the BOSL was mixed. The CBs inherited problems from inception, including: (i) low management skills; (ii) weak governance capacities; and (iii) high costs.

29. The PAR> 30 days was very high for most of these early CBs (PaR>30 days of 50% and above). This resulted in high loan loss provisions and write-offs due to inexperienced loan officers, and the involvement of Board members and management in loan disbursements (to relatives, etc.). The lack of networking relationships among the CBs also led to an overall absence of best practices in similar institutions. Furthermore, the standalone nature of their operations prevented the CBs from benefiting from economies of scale in terms of internal auditing, training and product development. CBs were also not operating on the basis of business plans, policies and procedures manuals were not developed, communities were not sensitized, and shareholders were unaware of their rights and responsibilities. Finally, the BoSL had a very limited capacity to supervise the CBs.

30. In contrast, the three new CBs created under the RFCIP were established based on a new approach to ensure that they would be more sustainable and cost-effective. This involved the following elements: adoption of a computerized MIS system; the development of policy and procedural documents; extensive staff training; and the adoption of business plans and a yearly budget which are reviewed and approved by the TAA. Furthermore, quarterly budget performance reviews are undertaken to ascertain whether targets are achieved. At present,

CBs offer both individual and group loans. These can be for commercial/trading purposes, agricultural production purposes, socio–economic purposes (salary loans), industrial activities purposes and for community activities (purchase of bicycles, motor bikes and mobile phones). They also offer overdraft facilities for schools and commercial clients. The loan size ranges from Le 100.000-200.000 (USD 40-80) to Le 20-40 million (USD 8.000-16.000); loan duration is on average 1-6 months, but for agricultural loans, this can range between 10-12 months depending on the seasonality of the crop. The interest rate is around 2.5%-3.00% flat per month, but in most cases, agricultural loans are bullet paid with an interest rate of 25% per annum.

31. The improved approach for CBs has now been adopted by the early CBs as part of a rescue plan to improve their performance. Consequently, the average PaR>30 days of these initial CBs has improved substantially to 13% of the total loan portfolio outstanding. In contrast, the PaR>30 days of those CBs established under RFCIP is 3%.

32. **Institutional support to CBs and FSAs**. The **Technical Assistance Agency (TAA)**, established under RFCIP1 and based in Kenema, has been instrumental in providing management and technical support to CBs and FSAs. As it was originally conceived, the TAA, as an institution, was an interim arrangement. It operates on a service-based model (as opposed to a business model) and as a special unit within the National Programme Coordination Unit (NPCU) for IFAD-supported projects. The existing CBs and FSAs are closely monitored by the TAA/NPCU; in addition, the TAA provides audit and supervisory functions on behalf of BOSL, as delegated through an MoU. The role of the TAA is to provide the CBs and FSAs with technical support and oversight over their operations. Human resource functions, training and other services make up other TAA responsibilities. Key performance indicators related to profitability and sustainability of the CBs and FSAs are monitored by the TAA on a regular basis and feed the assessment of their financial performance.

33. The Government of Sierra Leone (GOSL) has clearly identified the FSA and CB models as the spearhead of rural finance in the country. Thus, the MAFFS and the BOSL have sought to replicate the approach of the IFAD-funded RFCIP1. This is evidenced by the inclusion of an access to rural finance component (component 3) in the Smallholder Commercialisation Programme (SCP). Furthermore, under the SCP-GAFSP, the number and outreach of these institutions will continue to be supported. In recognition of the invaluable work of the TAA, the SCP-GAFSP has given the TAA responsibility to implement its rural finance component on a national basis (note that a TAA sub-office will be opened in Makeni, in addition to the office in Kenema). The experiences and lessons learned from implementation of the RFCIP1 is thus the basis for a revised approach, leading to better results. RFCIP2 will, therefore, complement the on-going RFCIP1, SCP-GAFSP and other microfinance initiatives to extend rural financial services on a national scale. This second phase programme has been included in the current COSOP. This highlights the value of strengthening and expanding the rural financial system, particularly in light of the relatively limited impact that the financial system had had on agriculture to date.

34. **Moneylenders.** Most rural areas have a moneylender who is well known in the local villages. These actors will make loans at short notice and without any lengthy bureaucratic procedures, and as such provide a service in their communities. The loans, though, are extremely expensive with interest rates often as high as 25% a month flat, frequently demand physical collateral, and can involve unpleasant methods of collecting repayments. The ease of access and the speed of disbursement, though, do represent a level of service that other rural lenders will need to match. While no data seems to exist on their activities, their usage is very widespread.

35. **Ososus** exist in many villages in the countryside. They are informal groups that meet on an irregular basis, whereby those villagers who have surplus funds and those looking to borrow come together and in front of the group strike the terms and conditions for a loan. These terms

may, or may not, involve the payment of interest. If, on the due date of repayment, the borrower defaults on the loan, the group has the right to go to the borrower's house and take sufficient assets to cover the loan and give them to the lender. Normally this right only has to be exercised only once or twice to guarantee a nearly 100% loan repayment rate on subsequent loans. The major shortcoming of this approach is that no osusu member may have any funds available to lend, and usually the maturity of the loans is short. Although the practice of osusus is wide-spread, no data exists on their activities.

36. **Regulation, Supervision and the Policy Environment.** The BoSL has the regulatory and supervisory responsibilities over the financial system and draws its mandate from the Banking Act 2000. As the banking industry grows in terms of number of institutions the BOSL would be challenged to improve its capacity for its oversight role. Within a space of less than 10 years, 56 new rural finance institutions have been added and in addition the microfinance institutions are also growing. The capacity shortfalls that need to be rectified include the hiring and training of more professionals, and the need to acquire the necessary equipment and vehicles. The need for capacity building has been taken into consideration in the Financial Sector Development Plan (FSDP).

37. Under RFCIP, the Technical Assistance Agency (TAA) was established to provide some management and technical services to CBs and FSAs, including audit and inspection functions. This has gone a long way in providing oversight over them and guiding them to their present level of performance. The proposal to convert the TAA into an Apex Bank seems to be receiving favourable consideration from the BoSL. If the concept is implemented, the role of the APEX would enhance the supervision of CBs and FSAs and complement the BoSL.

38. The BoSL has in place rural banking policies, and has been collaborating with development partners to make financial services accessible to rural communities. The most important of these, the Banking Act (2000) and the Other Financial Services Act (2001), have provisions for licensing financial institutions that can operate in the rural areas.

39. Against this background, the BoSL published the Financial Sector Development Plan 2009, which includes provisions on access to financial services. One of the key objectives of the Financial Sector Development Plan stipulates as follows: 'To increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks'. In line with this objective, the BOSL has been collaborating with some stakeholders under MITAF I to promote the growth of the microfinance sector to make financial services accessible to the marginalized. Furthermore, the GOSL and the BOSL have been working with IFAD and other development partners to extend the frontiers of financial services to rural areas. One such initiative is the RFCIP programme, under which CBs and FSAs have been established and are operating in very remote rural areas. The BoSL has also taken a further step by declaring its willingness to consider licensing the TAA into an Apex bank, and will cooperate regarding the supervision of the CBs. The policy environment is therefore, favourable for extending access to finance in rural areas.

40. In conclusion, considerable progress has been made to bring financial services to the rural districts of Sierra Leone. It is unrealistic, though, to expect the commercial banking sector to play a significant role in this outreach within the near future, whilst the advent of the FSAs and the CBs, though, have shown that they have considerable promise. With strong technical support, the provision of trained staff, and some capitalisation they could be in a position to fill the gap in the provision of financial services that currently exists in rural areas.

The potential demand for credit by rural, creditworthy clients

41. In order to quantify the need for rural credit from creditworthy, smallholder farmers who meet IFAD's client parameters but who lack access to credit, a market survey was undertaken. The survey was based on data collected under the Baseline Study that was recently undertaken, available statistics, and the RFCIP team's knowledge of the marketplace.

42. The baseline statistic used as a starting point was the overall population of Sierra Leone (6,500,000) of which 70% live in rural areas (4,550,000). Assuming an average household size of 6 people, the number of rural households was calculated at about 758,000. It is assumed that potential lending would be for only 1 business activity per household, since it is the entire household income that would be reviewed when evaluating the creditworthiness of the activity to be financed.

43. It was estimated that approximately 80% of these households meet IFAD's client parameters, resulting in approximately 607,000 households being eligible under RFCIP2. The baseline survey found that about 27% of the population did not need loans (164,000) and that 70% of those that need loans do not have access to finance. This would result in about 310,000 households that are interested in accessing credit, but do not have access.

44. The considered opinion of the staff of the existing TAA was that 75% of these households would be considered creditworthy; using microfinance and banking best practices. Consequently, nationally, there would be about 232,000 creditworthy households looking for credit. The baseline survey estimated that about 33% of these clients already had access to cheap credit under the osusu system and other credit available and thus would not access credit provided on the proposed terms. This results in about 156,000 creditworthy rural households that meet IFAD's client parameters who are looking for credit.

45. Assuming a maximum loan size of USD 350, the net creditworthy demand for credit would be approximately USD 55,000,000.

46. With about 33,000 active borrowers being reported to the MIXMarket, there is considerable unmet demand from creditworthy clients throughout the country by IFAD's target demographic sector.

B. Rationale

Overview

47. The strong performance of the RFCIP (95% of objectives had been reached by mid-term) and other on-going projects/ programmes in the country, has led to an increasing recognition of the importance of rural finance (access) for sustainable investment and growth in the agricultural sector. The revised model for FSAs and CBs has shown that there real scope for outreach to rural communities; these institutions, which are operationally sustainable and profitable, are also a very credible instrument for alleviating poverty.

48. The basis and justification for a second phase programme are centred around three key points: i) there is still need to develop an Apex that will provide necessary common services to the network of FSAs and CBs in order to guarantee their sustainability, efficiency and profitability; ii) there is need to complete the outreach of these rural financial institutions on a national level, particularly for outreach to smallholder farmers; and iii) there is need to support agricultural and small-agribusiness development through a specific facility dedicated to small farmers.

49. This success provides the basis for undertaking a second phase programme (RFCIP2). The emphasis will be on consolidating and leveraging the lessons learned and achievements of past and ongoing projects towards strengthening the rural finance sector. A business-oriented, and stronger performing sector, will allow for significant scope and depth to the support for further development of the agricultural sector in Sierra Leone.

Alignment with National and IFAD strategies

50. There is a high degree of congruence between the GOSL's strategies and IFAD's mandate for rural poverty reduction. The GOSL 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 (note that SCP is the national programme for implementation of the CAADP).

51. The current (2010-15) COSOP is centred around three strategic objectives: (i) support to agriculture – smallholder farmers' access to irrigation, technical skills and markets is improved; (ii) support to rural finance – the rural poor have access to reliable and sustainable financial services (savings, credit, transfers, remittances); and (iii) support to local development – the increase in the level of participation by the rural poor in the management of local decentralised institutions. To achieve this, the COSOP intends to direct new financing in scaling up on-going interventions. Initially, efforts will be concentrated in a few districts where IFAD already operates with a comparative advantage, and so as to ensure full coverage of the area and impact on the rural community. As clearly articulated in the COSOP, it is only the rural finance strategic objective that will be progressively scaled up and extended to a national scale.

52. Under the current COSOP, the IFAD target group consists of smallholder farmers and landless rural households who demonstrate interest and willingness to move beyond subsistence agriculture. In support of this, smallholder farmers typically cultivating between 1 and 3 hectares will be supported by facilitating access to know-how, land, inputs, finance and markets. Similarly, local SME operators who also constitute the rural poor, and yet have demonstrated an eagerness to engage more actively in economic initiatives, will be supported to **overcome their key constraints which are lack of access to capital and financial services**.

53. To be effective, IFAD will continue to pursue policy dialogue and engagement with the government in the priority area of rural finance, towards improved anchoring of community-based financial institutions in the overall financial system.

Complementing past and on-going efforts

54. The RFCIP2 will compliment RFCIP and other on-going programmes in the following ways:

55. *Strong performance of RFCIP*. As earlier indicated, the initial RFCIP programme was conceptualised to improve the access to rural finance in rural areas in order to reduce poverty and improve agricultural production and income generation. Concurrently, it would ensure the participation of, and ownership by, the rural communities. By the end of 2013, it is expected that 79 rural financial institutions (60 FSAs and 19 CBs) will be operational and will have national coverage; with the support of on-going projects and RFCIP2, by 2014 the expected number of operational rural institutions will be 87. A demand study has confirmed that this increase in the number of rural financial institutions is justified.

56. Overall, one of the biggest achievements of RFCIP is its instrumental role in laying down the foundation for establishing the rural financial system (RFS) in Sierra Leone today. This includes the deployment of various types of financial instruments, but also importantly, the building of a supporting and committed team in what is the Technical Assistance Agency (TAA). As earlier indicated, the 25 staff and consultants (with performance-based contracts) comprising the TAA have been responsible for providing close support in the development of the 7 CBs and 48 FSAs, the restructuring of the 6 early CBs, and the building of CB and FSA staff capacities; all within a four year period.

57. Despite the above achievements, the following issues still remain to be addressed: (i) the limited capital available to these institutions to improve their outreach (note that many CBs were under-capitalized at inception. Even under RFCIP1 there was a tendency to capitalize them gradually by financing some of the operating costs), and (ii) strengthening and expanding the rural finance network, including provision of common support services to the network to improve performance and the quality of portfolios. The purpose in strengthening and expanding the network would be to enhance the coverage of the rural population's access to rural finance in general. This will require creating sustainable rural financial institutions (RFIs) that can offer the necessary services. The strengthening/expanding process is both quantitative (through the

national coverage) and qualitative (through the Agricultural Finance Facility (AFF) and the capitalisation of the CBs) that will increase agriculture production and so alleviate poverty.

58. **Opportunities to complement IFAD and GOSL interventions in the agricultural sector**. The agricultural sector offers considerable potential for poverty alleviation and income generation. To further emphasize the link with the agricultural development agenda, there is also real scope to complement activities and interventions envisaged under the RCPRP (10,000 ha of tree crops rehabilitation, 3,000 ha of In Land Valley swamps rehabilitation and rice/vegetable cultivation, support of local service providers in agriculture) and SCP-GAFSP (additional 8,000 ha of tree crops rehabilitation, 4,000 ha of Inland Valley Swamps rehabilitation and rice/vegetable cultivation, support of local service providers in agriculture) with ad hoc loans for rural actors, such as adapted small farm agricultural campaign loan, tree crops rehabilitation loans or small equipment/infrastructure loans.

59. The substantive interventions to promote smallholder agriculture and commercialization can only be enhanced by a functioning and responsive rural financial sector; i.e. the SCP-GAFSP with its objective to improve quantity, quality and value of marketed production by increasing farmers' access to inputs, processing facilities and marketing opportunities, can be facilitated by rural finance products and services to meet these purposes.

60. It should be noted that the provision of loans/ credit in support of agricultural production, and rice production in particular (as the main staple crop), should not present any detrimental reduction in price for smallholder farmers, as there is sufficient absorptive capacity for incremental production in the market[7].

Alignment with IFAD Strategic Framework

61. **Strategic Framework.** RFCIP2 is closely aligned with IFAD's strategic framework, covering the period 2011-15. The framework reflects IFAD's overarching goal of enabling poor rural people to improve their food security and nutrition, raise their incomes and bolster their resilience. The framework has five strategic objectives: (i) to create a natural resource and economic asset base that is more resilient to climate change, environmental degradation and market transformation; (ii) to improve access to services and build resilience in a changing environment; (iii) to enable poor rural people and their organisations to manage profitable and sustainable enterprises and take advantage of decent work opportunities; (iv) to enable poor rural people to influence policies and institutions that affect their livelihoods; and (v) to create enabling institutional and policy environments to support agricultural production and related activities.

II. Programme description

A. Programme area and target group

62. **Target area**. The RFCIP2 will be a nation-wide programme, covering all districts in Sierra Leone (13 districts, including rural areas of the Western District, outside Freetown). Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the on-going IFAD-supported operations, namely RFCIP, RCPRP and SCP-GAFSP; to build on what has already been achieved and to maximise impact. This will include targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

63. **Target group and strategy**. The target group would comprise poor rural people, with a focus on those displaying a willingness and commitment towards adopting business-oriented

[7] See Appendix 10 for more detailed information regarding the demand for incremental production resulting from RFCIP2.

principles. This implies that the target group would be the economically active poor. This group would include those belonging to the following categories: (i) farmers (smallholders and medium-sized); and (ii) micro- and small-scale entrepreneurs. These strategies will build on the data collected under the existing baseline survey as well as under GALS. Special attention will be given to rural women and youth, using proven models and approaches tested under the RFCIP to ensure that their needs are taken into account via a consultative process. As part of the core targeting strategy, ensuring pro-poor and farmer-friendly financial products will be emphasized. The strategy is one of *access*; thus the project has been conceived on the basis of: i) geographical proximity to the target group; and ii) adapted products. The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger pro-poor, pro-gender and youth focus, and better outreach to farmers.

64. Assuming that each FSA and CB will be able to substantially extend its outreach to the community, the RFCIP2 could reach some 285,000 rural households during a 9 year span.

65. **Gender and youth mainstreaming**. The programme will support gender mainstreaming, empowerment of women, and specific targeting measures of youth (approximately 35% of the population is aged 15- 35 years), to ensure maximum participation of these vulnerable groups in various activities. Special emphasis will be placed on ensuring that they receive equitable access to financial services under RFCIP2. Targeted and tailored CB and FSA products will also be developed for women and youth.

66. *Mainstreaming gender with GALS*. The Gender Action Learning System (GALS)[8] will be adopted as the primary strategy to mainstream gender in project interventions. It is an empowering process which helps to increase participation at all levels, working with men, women and the poorest community members, addressing gender inequalities and imbalances within the household as a whole. The GALS tools will be used to promote household financial planning and savings, and more equitable decision-making. Tracking and planning incomes, expenditures and use of resources is particularly important for the poorest households in order to cope during the hunger periods. The GALS 'Poverty Diamond' tool will be used to help identify and target the most poor community members, by gender, as well as provide baseline information for categorisation of poverty.

67. *Women and youth participation*. Targeting and sensitisation will aim at 50% women and 50% youth to become shareholders/clients of FSAs and CBs (at present, women's participation in CBs is 38% and in FSAs it is 40%; for youth the ratio is 38%). Particular attention will be paid to female heads of households (note that approximately one out of every five households is headed by a woman).

68. Other measures envisaged include: ensuring gender balance in bank staff and board; providing literacy and numeracy training for women's saving/borrowing groups; ensuring outreach of poor and women in communication/sensitization campaigns; and emphasis on gender and youth-disaggregated M&E.

69. **Environmental considerations**. RFCIP 2 supplements the on-going IFAD-supported programmes, including RFCIP, RCPRP and the SCP-GAFSP, by facilitating access to financial services for rural and agricultural communities. It should be noted that these projects/ programmes have had environmental impact assessments that have deemed their interventions favourable. As the programme seeks to assist farmers and the rural poor on a national scale by supporting agriculture and income-generating activities through an AFF and the capitalisation of the CBs, the promotion of sustainable agricultural practices will be underlined.

[8] GALS has been successfully implemented in Uganda and has been piloted under RCPRP (see Appendix 3 for further details).

70. By the nature and extent of the likely environmental effects, RFCIP2 is classified as a Category B programme in line with IFAD's EA procedures. The potential negative environmental effects (by virtue of financing for agriculture) are assessed to be within controllable limits. Mitigation measures to reduce the emergence of detrimental effects on the environment include: awareness sessions on specific environmental issues in technical training courses; and monitoring the loan purposes in financial institutions supported under the project. Also, the use of credit for agrochemicals will be restricted until proof is provided that they are not harmful to the local environment. The impact that RFCIP2 has on the environment will be included in the impact studies to be undertaken over the life of RFCIP2 including more frequent studies carried out by the NPCU.

B. Development objective and impact indicators

71. In alignment with GOSL priority objectives, as articulated in the PRSP and NSADP, the overall **programme goal** of the proposed second phase 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, thereby enabling development of the agricultural sector. In order to fill in the void in the districts not covered by RFCIP and also to consolidate the gains made to date, the proposed programme will up-scale the on-going RFCIP to a national level and will forge linkages with other IFAD and donor supported projects. Ensuring that the rural financial system can continue to meet the needs of the rural communities it serves, will necessitate a concerted effort to promote their profitability and long-term sustainability of the programme supported RFIs.

C. Outcomes/Components

72. To achieve its goals and objectives, the project will finance two mutually reinforcing components:

Component 1: Strengthening and expanding the outreach of the rural finance system of FSAs, CBs and the TAA/APEX. This component will have two sub-components;

Sub-Component 1.1: Sustainable and autonomous RFIs

Sub-Component 1.2: Promotion of agricultural financial products

Component 2: Project management and coordination.

73. The programme will be implemented over a 9-year period, focused on component 1, the strengthening and expansion of the rural finance system, and will be complemented and reinforced by programme management and coordination (component 2).

Outcomes

74. The strengthening and expansion of the rural finance system (component 1) has an expected outcome of developing the agricultural sector in Sierra Leone, with a vast majority of the rural population (that meet IFAD's target parameters) having access to rural finance services.

75. The main expected results of component 1 include:

(i) An autonomous APEX providing sustainable services to CBs and FSAs;

(ii) 22 CBs operational with a PAR >30 days below 5% and are operationally sustainable by year 3;

(iii) 65 FSAs are operational (and attain operational sustainability by year 3), with possible linkages to CBs;

(iv) FSA membership increased to cover 35% of the communities;

(v) Increase in agricultural production as funds become available to provide agricultural loans;

(vi) About 170,000 loans being made to participants through an expanded rural financial system over the lifetime of the programme.

(vii) About 50% of those reached would be women and youth;

(viii) The GALs system introduced with attendant benefits for the families.

76. The component on project management and coordination will have an outcome that the programme is effectively managed to achieve expected results, and with communication, knowledge management and policy dialogue integrated in all aspects of programme management.

77. The main expected results of component 2 are:

(i) Establishment of an effective M&E system;

(ii) Policy dialogue for promotion of the rural finance agenda.

Components

Component 1: Strengthening and Expanding the Rural Finance System

78. This component has the overall objective of developing the agricultural sector in Sierra Leone, and that a vast majority of the rural population that meet IFAD's target parameters will have access to rural finance services. Simultaneously, the component will ensure that the RFIs remain savings driven and under the control of their depositors/shareholders. It focuses on consolidating and ensuring the sustainability and impact of the eighty-seven (87) RFIs including four (4) regional community banks that are expected to be operational by end 2015. Moreover, it will include strengthening the technical support to these institutions in the form of the TAA/APEX. The three track approach of promoting sustainability of the FSAs, CBs, and the TAA/APEX, combined with strengthening of the TAA/APEX to provide the necessary support services, establishes the foundation for growth in the rural financial system. Through these measures, the following functions will evolve: (i) provision of technical support to ensure sound management and good performance of these institutions; (ii) effective compliance with financial regulations (iii) the availability of limited liquidity through the AFF and the capitalisation of the CBs.

Sub-component 1.1 Sustainable and Autonomous Rural Financial Institutions

79. ***(1.1A) Support to the TAA/APEX***. As consolidation of the rural finance system requires building on the existing experience to date, the highly qualified and experienced TAA, and the supporting role it provides, continues to be a critical element of the overall effort. The unique characteristics of, and circumstances under which CBs and FSAs operate (their structure, clientele, business models and related operational methodologies), warrant the need for specialised support services. In view of this, an APEX institution will be established as the key service provider for all services related to the continued growth and sustainability of the RFIs (CBs and FSAs). Under RFCIP2, it is envisaged that the TAA will be transformed into an APEX entity that will be registered under the Other Financial Services Act of 2001 (OFS Act). **The APEX will provide three core service functions under RFCIP2 : (i) administration of an Agricultural Finance Facility (AFF) and the investment of capital into the CBs by outside shareholders, to improve access to rural finance; (ii) provision of inspection functions and limited supervisory duties to FSAs and CBs; and (iii) provision of technical assistance/ support (including training).** The APEX will operate under the regulatory oversight of the BOSL.

80. *The Capitalisation of the APEX.* The minimum capital necessary to register under the OFS is approximately USD 6 million. To make the APEX operationally sustainable over the long term, and to give it flexibility to adapt to evolving circumstances it is proposed to capitalise it at USD 9,000,000. This will be funded by transferring USD 1,000,000 in fixed assets expenses to date on establishing the TAA, plus a cash injection of USD 8,000,000, to be invested by outside

shareholders. Initially, the USD 8,000,000 will be allocated within the APEX between the AFF (USD 3,000,000), funds to capitalise the CBs (USD 3,000,000) and working capital (USD 2,000,000). These funds need to be part of the assets of the APEX at the time of the acceptance of its formal registration and regulatory permission is granted to commence operations under the OFS. It is anticipated that this external funding (from NASSIT and possibly the IFC) will be provided at the time of the formal registration of the APEX. The share capital to be contributed through RFCIP, namely the capitalisation of fixed assets, will be held in trust for the participating CBs and FSAs. This avoids allocating individual capital holdings amongst 87 individual entities.

81. The surplus liquidity that the APEX will hold at any given point in time will be invested in high-quality short term investments and/or in the interbank market, so as to maximise the profitability of the APEX, as well as enhance the overall liquidity.

82. *The Management Structure of the APEX.* Discussions have been held with the BOSL regarding how the management of the APEX needs to be structured to meet the requirements of the OFS Act. The proposed organigramme,(see appendix 5) broadly follows the recommendations of the BOSL, with the main departments being the Refinancing Department, the Non-refinancing Department, the Inspection Department, and the Banking Department.

83. *The Refinancing Department* will have the responsibility for managing the AFF. The department will review the creditworthiness of prospective borrowers (CBs and FSAs) from the AFF; and will recommend to management regarding whether to extend a loan, the amount, and the terms and conditions. The Department will comply with banking best practices and will assess the form and amount of collateral that would be prudent to require, bearing in mind that the APEX will be taking the credit risk on the loans to the RFIs. Most likely this collateral will consist of a floating lien over the assets of the borrowing FSA or CB. The Department will carry out an annual review of the performance of the borrower and recommend to senior management whether the line of credit should be renewed, increased, decreased or cancelled. Additionally, it will undertake due diligence of the CBs regarding the capital investments by the APEX in the CBs, and make recommendations on such. It also will undertake an annual review of the CBs on the request of the investors. The decisions of the Refinancing Department will be taken independently of any input from either the Non-Refinancing Department or the Inspection Department.

84. *The Non-Refinancing Department* will have the responsibility of providing technical assistance and training to the FSAs and CBs. It will work in close co-ordination with the Inspection Department and often will be brought in when the latter identifies weaknesses in the RFIs. The Department also will have responsibility for developing the various training curricula and running the training courses and workshops. In some cases these courses will be developed in conjunction with the BOSL. The department will have the primary responsibility for updating and keeping current the various operating manuals used by the RFIs. Additionally, the department will take the lead in developing new savings and credit products, and where possible develop industry wide policies and best practices. After approximately 3 years, when the RFIs are expected to be operationally sustainable, the Non-Refinancing Dept. will charge the RFIs for its services. This will represent an important source of revenue for the APEX.

85. *The Inspection Department* will have the primary responsibility for ensuring that the participating RFIs are in compliance with the various regulatory requirements, are following their own policies as outlined in their manuals and are utilizing best practices. This department will consist of head office based inspectors, supported by field inspectors. These teams will undertake regular inspections of the activities of the RFIs and ensuring that the regulatory reports are correctly compiled and filed on a timely basis. The BOSL will have the right to examine the department’s files at its discretion. The Inspection Department, through its regular contact with the FSAs/CBs, will act as the watchdog for any looming problems with the RFIs, and will notify the Non-Refinancing Dept of such for any necessary remedial action.

86. *The Banking Department* will have the responsibility of maintaining the current accounts with the RFIs, and ensuring that the APEX itself is in compliance with BOSL and other corporate requirements. Managing the clearing house function also will be part of its responsibilities. Additionally, it will be responsible for the cash management function, including investing surplus liquidity in short term instruments (special training will be provided).

87. The other departments (MIS and Human Resources and Accounting and Budgeting) will undertake the duties normally assigned to such departments. The internal audit department of the APEX will report directly to the Board of Directors.

88. All of the Departments will report to the Managing Director, who in turn will report to the Board of Directors. As mentioned previously, the APEX will be subject to regulatory oversight of the BOSL.

89. **APEX services**[9]. The mission of the APEX is to provide vital banking and non-banking demand-driven support services to CBs and FSAs with the aim of improving their operational efficiency and effectiveness, thus transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate. The main Apex services will be: (i) Administration of the Capital Investment in the Community Banks; (ii) Administration of the Agricultural Finance Facility (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; and (viii) Wire Transfers. Detailed information are provided in Appendix 4.

90. <u>The Programme's Exit Strategy from the APEX.</u> The exit strategy of the programme from supporting the APEX is for the latter to achieve operational sustainability. It is anticipated that its basic sources of income will be the interest on the loans under the AFF and the ADF, income from its short term investments, and fees for services rendered, including training fees.

91. The projections for the **sustainability of the APEX** are as follows and are based on the following assumptions:

(a) RFCIP2 will provide the USD 9,000,000 in share capital to meet the BOSL minimum requirements. USD 8,000,000 will be in cash from external investors and USD 1,000,000 by the transfer of fixed assets from RFCIP.

(b) The rate of inflation will be 10% per annum.

(c) The foreign exchange rate is SL4,350/USD1.

(d) The number of participating RFIs in the APEX will rise to 65 FSAs and 22 CBs.

(e) The operating costs increase at the rate of inflation.

(f) The salaries of the APEX staff increase at the rate of inflation each year.

(g) Surplus working capital and AFF funds will be invested in short term treasury bills at 21% the first year and then declining by 1% per annum for each following year.

(h) Loan to the RFIs will be at a rate of 12% p.a.

(i) The APEX will start charging the FSAs and CBs for its technical assistance and advice in year 3 of operations.

(j) The RFCIP programme will support the APEX for the first 3 years, paying for all operating expenses excluding the loan loss provision, and the provision for depreciation.

(k) The earnings of the APEX and the RFIs will not be subject to income tax.

(l) The USD 3,000,000 for recapitalising the CBs will be disbursed immediately and the dividends thereon will be payable immediately.

[9] An extract from the APEX Business Plan is provided in Working Paper 1, detailing information with respect to the Apex's responsibilities and services to be rendered. Working Paper 1 also includes the draft AFF Investment Guidelines and draft Subsidiary Loan Agreement template.

(m) The rate of drawdown under the USD 3,000,000 AFF will be relatively rapid, given the likely strong demand for liquidity by the RFIs. Assuming no drawdowns in the first 6 months of operations, the AFF is projected to be fully utilised by year 4.

(n) The Board of Directors of the APEX will approve the payment of dividends to the external shareholders at a yield of 12% to investors starting in year 4.

92. Detailed tables on the projected balance sheet and profit and loss statements are provided in Appendix 4 (detailed project description). The forecast shows that the APEX likely will achieve operational sustainability in the second year of operations, and more certainly in the third year.

93. Over the time period 2014 to 2019, the Return on Assets (ROA) is projected to rise from 0.68% to a healthy 6.8%. Concurrently, the Return on Equity (ROE) rises from 0.77% to 7.8% pre-dividend payment over the same period. These ratios will peak in 2015 and then decline gradually thereafter. The narrowness in the spread between these 2 ratios is due to the relatively low level of debt on the balance sheet of the APEX.

94. Sensitivity analysis indicates that while only a limited change in some of the projected activities would plunge the APEX into a loss in the second year of operations, the projected earnings in year 3 (2015) are much more robust. In that year gross income could decline by 35% from its projected level and the APEX would remain operationally sustainable. Similarly, the basic operating costs could increase by more than 50% without putting the APEX into a deficit position. Concurrently, gross revenue could decline by 20% and operating costs rise by almost 30% and the APEX would remain profitable.

95. The above analysis indicates that the proposed structure of the APEX will result in it being operationally sustainable for the foreseeable future. In the very long term, if interest rates on investments decline to single digits and stay there, consideration may have to be given to raising the interest rates on loans to/investments in the FSAs and CBs, or investing in more high risk assets. The reduction of future operating costs also would need to be considered.

96. ***(1.1B) Support to the Community Banks.*** The CBs are seen as a key factor to achieve outreach to rural areas through community owned and focused financial institutions. The experience under RFCIP has been that with an astute combination of liquidity and outreach, they can provide a range of financial services to their clientele on a sustainable basis. Based on these results, the support to CBs will continue to focus on expanding the number and outreach of the district-based CBs. This focus will include strengthening their autonomy and self-sufficiency so they become viable and form the critical link with rural agricultural communities and the formal financial sector. Ultimately, it is expected that each CB would reach out to approximately 10,000 rural households. To this end, support to CBs will focus on (a) addressing the capital limitations of these institutions (b) strengthening the management of the CBs, (c) upgrading their infrastructure and MIS systems and (d) improving the financial performance of CBs in a sustainable manner.

97. *The CB Capital Limitations.* Locally based CBs have certain unique advantages regarding the provision of financial services, the most important of which is that they know both the local economy and their client base. This client base will include the typical smallholder farmer/youth/women who form IFAD’s target market. The typical CB, though, continues to face both capital and liquidity shortages that limit their ability to extend agricultural lending. Currently, the primary sources of funding for CBs are their share capital and depositors’ savings, which are limited. This results in the CBs finding that the best use of their funds is to make very short term loans that turn over quickly, such as for petty trading or salary loans, rather than making longer term agricultural loans. Furthermore, the BOSL’s regulatory requirements prohibit them from lending more than 0.5% of their net worth to a single borrower. Due to the challenges in raising share capital (it is unrealistic to expect significant mobilisation of capital from farmers), the net equity of the average CB is very small, resulting in small loan sizes.

98. Under the Other Financial Services Act 2001, Institutions incorporated or registered in Sierra Leone must, at all times, maintain in Leones an unimpaired minimum paid-up capital of Le 1,000,000,000 (approx. US$ 230,000 at time of writing); the Institution also shall not invest more than 30% of its capital base on fixed assets[10]. The CBs that currently are supported by RFCIP have received an exemption from the BOSL; whereby the local shareholders raised approximately USD10,000, RFCIP1 granted USD33,000 in liquid capital and about USD69,000 was invested in them in the form of fixed assets. The BOSL has now cancelled this exemption and will require that in future all CBs now must meet the minimum requirement of Le 1,000,000,000.

99. NASSIT (and possibly the IFC) is willing to invest in shares of the APEX, USD 3,000,000 of which will be used to capitalise the CBs, thereby bringing their capital up to the minimum capital requirements of Le. 1,000,000,000. The investments will only be made into those CBs that are sustainable and will be providing financial services in the rural areas. This investment will be made in shares and will be held in the name of the nominee acting on behalf of the external investors. It is estimated that for the existing CBs this investment would need to be approximately USD 120,000, while the new CBs it will have to be approximately USD 170,000. The total investment required will be approximately USD 3,000,000, with additional capitalisation coming from RFCIP2 through the capital assets. Effectively, this cash by NASSIT investment would not only serve to increase outreach in terms of access to credit and other financial services, but it would also serve to stimulate the attainment of CB profitability and sustainability in a much shorter timeframe, whilst simultaneously meeting the capital requirement regulation discussed above. These equity investments, though, will have limited voting rights, so that ownership in, and influence over, the CBs remains under the control of the local community. It is expected that NASSIT, with its primary interest in investing for social and rural development and gaining access to the informal sector, will forgo any immediate return on its investment until year 4, when a dividend yielding 12% will be paid.

100. It is critical to emphasize that this equity investment will be extended to CBs on the basis of their sound and viable business plans, which also will reflect financial projections that factor in the repayment on the initial investment should NASSIT require a repayment from the APEX which could trigger a cashing out of the APEX's shareholdings over a brief time period.

101. *Strengthening the Management of the CBs.* While much has been achieved in developing and restructuring CBs, issues remain that impact on their performance and on their risk profile for both depositors and investors. These include: lack of transparency, weak record keeping, poor loan portfolio quality which requires the cleaning-up of the books (already being undertaken under RFCIP by external auditors), reconciliation of bank statements, proper functioning of the cheque clearing system and transfers. The CBs also suffered from inadequate/inappropriate products, errors in bookkeeping, lack of familiarity with the computerized systems and lack of experience/ competencies in loan appraisal for agricultural and SME loans, institutional analysis and internal control systems. Under the training component USD 533,000 has been set aside to strengthen the capacity of the staff of the CBs (including governance training for the respective Boards of Directors). The types of training provided, the duration of the courses and the frequency with which they will be provided is outlined in Appendix 4. In addition, there will be substantial on-the-job capacity building through direct support provided by the APEX team.

102. *Upgrading the Infrastructure and the MIS Systems.* As part of the capitalization of the CBs, RFCIP2 will provide new office equipment, furnishings and transportation to the CBs as a form of equity. For the existing CBs this will include the upgrading of their equipment, refurbishing of their building and the provision of solar panels. In certain cases new vehicles and motorcycles will be provided. In addition one additional CB and four "regional" CBs will be established in Bo, Kenema, Makeni and Freetown to facilitate access to banking services. These CBs will be

[10] Note that in contrast, Commercial Banks are required to maintain Le 20,000,000,000.

completely furnished, and provision also is made for the construction of staff quarters at 14 CBs.

103. The MIS system also will be upgraded and VSAT access to link all CBs will be provided. This cost is budgeted at USD 270,000. Additionally, USD 250,000 has been budgeted to publicize the services of the CBs and to sensitize the local communities to their services they offer through a series of community meetings.

104. As already noted, once the CBs have reached operational sustainability, they will be fully responsible for paying staff salaries and meeting their operating expenses from revenues earned as per their business plans. Project costs, therefore, do not make any undue provision for such expenditures beyond their attainment of operational sustainability. Given the equity investment to be provided by NASSIT and other investors, the project expects to support the operating cost of the established CBs for a maximum of 2 years, and 2.5 years for start-up CBs.

105. *The Operational Sustainability for Start-up Community Banks.* Detailed in Appendix 4 is a projection for the establishment of a new CB. This projection is based on the following assumptions:

(a) The rate of inflation is 10%;

(b) The CB borrows from the AFF at a rate of inflation plus 2%, projected here as 12%;

(c) The interest rates the CB charges on loans is 30% flat for a loan with a 6 month maturity, plus a commission of 2% of the loan amount. This matches the rates currently charged by the existing CBs;

(d) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings and on savings. In year 3, the rate of reimbursement declines to 50% of the above defined operating expenses;

(e) The average growth rate of the loan portfolio is 22.5%;

(f) The loan loss provision is 5%;

(g) The local shareholders will contribute approximately USD10,000 in paid-up capital. RFCIP will provide approximately USD105,000 in capital expenditure as a capital investment. An external shareholder will invest about USD 170,000 as capital, in the form of shares. This external capital pays a dividend of 12%, starting in year 1.

106. The projection indicates that a typical start up CB will reach operational sustainability in three years (even without paying dividends on the new capital), with RFCIP2 reimbursing the operating costs (except depreciation, interest and the loan loss provision) in full for the first 2 years, and 50% in year 3. Thereafter, the CBs will be responsible for their own operating costs and for purchasing and upgrading any fixed assets.

107. In year three, the start-up CB will earn a return on equity of 9.7%, and a return on total assets of 8.5%. These ratios progressively increase to a 22.3% return on equity ratio and a 18.4% return on assets ratio in year 5 (2017). This relatively narrow spread between these ratios is due to low leverage ratio between debt and equity which is a combination of BOSL requirements and prudent banking. The sharp jump in net income in years 3 and 4 primarily is due to the increase in the loan portfolio outstanding due to the hiring of an additional loan officer, and the relatively fixed nature of the operating expenses, in particular salaries. Dividend distributions also are declining due to the abovementioned conservative treatment of the capital.

108. Sensitivity analysis indicates that if income from the loan portfolio (interest and commissions) fall by 15% in 2015, the typical start-up will be able to pay the projected dividends. Similarly if the total operating costs rise by 15% without any correspondent increase in income, the CB will still be able to meet the projected dividend payment. The loan loss provision charge could almost triple, and not place the dividend at risk.

109. The above analysis indicates that a start-up CB has a reasonable chance of achieving operational sustainability by year 3, and more certainly by year 4 after allowing for the dividend. Thereafter, with the loan portfolio growing at a modest rate, and the fixed cost nature of its operational expenses, this profitability, and therefore increase in the capital base, is expected to steadily improve.

110. *The Projected Operational Sustainability for Established Community Banks Participating in RFCIP2*[11] *has also been simulated and is detailed in Appendix 4.* By the end of the second year of RFCIP2 (2014), the typical mature CBs is expected to be solidly profitable, with a ROE of 8.7% and a ROA of 4.9%. This will rise sharply thereafter as the portfolio continues to expand and is funded by a progressively falling of their weighted average cost of capital; as retained net income is reinvested into the business. By year 5 (2017) the ROE is projected to be about 17.4%, and an ROA of about 11.6%.

111. For both the existing and the start-up CBs, there is a continued need for technical assistance and support. Training at both the FSA and CB level will cover the following topics with a focus on agricultural lending: principles of banking and finance; credit initiation, in particular cash flow lending; savings mobilisation; accounting; internal control reconciliation procedures; loan recovery management; market knowledge and development; business planning; how to analyse their own institution's performance; and compliance with BOSL reporting requirements. Training in governance also will be given to board members.

112. ***(1.1C) Support to FSAs.*** Under RFCIP the FSA model has proven to be successful. By the end of 2012, 54 FSAs will have been started under RFCIP1 and all continue to be operational. They are supervised by the Audit Department of the TAA, and under the APEX this oversight will continue from the Inspection Department. Under RFCIP2, 6 new FSAs are forecast to be opened in 2013 and a further 5 in 2014. It is anticipated that eventually the average FSA will reach about 1,000 members. Furthermore, these community owned RFIs will provide financial services in the very remote areas of the country.

113. As noted above, the current range of services provided by FSAs are limited, and there is a clear need amongst the rural population for savings services that do not lock up their deposits for long periods of time. In order to fill this gap, a study will be undertaken by the APEX to examine the possibility of FSAs acting as agents for a nearby CB. This would entail the FSA being able to collect deposits on behalf of the CB, for which the FSA would receive a service fee. Tentative discussions have been held with the BOSL and while the details of the implementation and structure of these agencies will have to be finalised, the BOSL has agreed to consider such a role for the FSAs. Care will be taken, though, to ensure that the creation of agency relationships does not undermine the existing FSA structure.

114. With its share based structure, the FSAs' available liquidity for lending is limited, while there is considerable unmet demand for credit in rural areas. In an effort to help meet this demand, and make credit available to the IFAD demographic market, under RFCIP2 it is proposed that the FSAs will be able to borrow funds from the AFF, subject to a credit analysis of the business plan, financial statements etc, and loan approval by the Refinance Department of the APEX. The maximum amount of credit that they will be able to access will be limited to the amount of paid-in share capital that the FSA has raised, so that the maximum leverage will be capped at 1:1. Such a ceiling will help reinforce prudential lending habits and will ensure that the local shareholders retain ownership of the FSA. To reinforce this, the amount of voting power granted to the APEX (if any) will be extremely limited. Furthermore, should the FSA become either an agent or branch of a CB, an advisory committee of local shareholders will be formed to oversee the activities of the individual FSA. This will ensure that the interests of the local population are both protected and continue to be served.

[11] Based on the Bambara Community Bank.

115. While the performance to date of the FSAs has been encouraging, it is recognized that under RFCIP2 a considerable amount of additional technical assistance, training and infrastructure will be needed for them to become fully operationally sustainable. Consequently, it is proposed that about USD 875,000 be budgeted for the provision of training, including on the basic agricultural lending, credit analysis, business planning, analysis of financial institutions, liquidity management and loan recovery. Training also will be provided on Board Governance. Funding also will be provided for upgrading the MIS system and creating internet connectivity (USD 173,000). Approximately USD 2,500,000 has been budgeted for the construction of the FSAs themselves, staff quarters, upgrades of existing buildings and the necessary office equipment, furniture and fixtures. Also, USD 286,000 has been budgeted for holding rallies and creating public awareness of the FSA network and the services that they can provide.

116. *The Operational Sustainability of the FSA Model.* Detailed in Appendix 4 is a projection for a typical FSA. This projection is based on the following assumptions:

(a) The rate of inflation is 10%;

(b) The interest rates the FSA charges on loans is 2.5% per month flat for a loan with a 6 month maturity, plus a commission of 1% of the loan amount. The current market rates being charged by the existing FSAs is 2.5%-3.0% per month;

(c) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings;

(d) The average growth rate of the loan portfolio is 52%, although on a declining trend;

(e) The loan loss reserve is 3% of the gross loan portfolio outstanding;

(f) The FSA will be able to borrow up to the limit of its paid-in share capital from the AFF. The borrowings will incur an interest charge of 12%.

117. The projection is based on an FSA that opened in early 2012. It shows that the FSA will access the AFF almost immediately to progressively increase its loan portfolio quite sharply, with it rising by 180% in year 2 (2013), 92% in year 3, and thereafter the rate of growth slowly declines to 30%% in year 5 (2016). The funding resulting from the reimbursement of the operating costs under RFCIP2 also provides considerable liquidity, Le. 142 million, for financing the increase in the loan portfolio in 2013 and 2014. The loan loss reserve, at 3% of the gross loan portfolio, is set to reflect the possibility of relatively modest loan losses being incurred due to the high level of members' own capital at risk and increased training of staff. With the large majority of loans being less than Le. 1.5 million (USD 350), by year 3 (2014) the FSA will be extending more than 400 loans annually to IFAD demographic clients. By year 5, this will have increased to more than 1,400 6 month loans of USD 350 each, or even more if the loan amount is smaller.

118. The FSA also gains income leverage from the relative fixed nature of its operating costs, which in most cases are forecast to rise in line with inflation, excluding the payment of fees paid for services from the APEX. There will be incremental staff employed in year 2 (2013) to help manage the increase in the loan portfolio. Running costs on the generator also are projected to be quite high.

119. The ROA and ROE ratios are projected to improve steadily over time, increasing from 1.62% and 1.97% in 2014 (the first year of operational sustainability), to 6.4% and 7.8% respectively in 2016. This provides the opportunity for the FSA to consider declaring dividends to shareholders from 2016 onwards. The narrowness in the spread between the respective ratios is due to the conservative leverage/gearing built into the model. This is essential to members retaining ownership of the FSA, and to be in accordance with prudent banking practices.

120. Sensitivity analysis indicates that the margin of error in the operational sustainability in year 2 is reasonable. If administrative expenses increase by 20%, or gross income falls by 6%, in that year, the FSA remains operationally sustainable. Concurrently, the loan loss provision by

increase by 90% and the FSA still would be profitable. This margin steadily becomes more robust. By 2016, the administrative expenses, excluding fees paid to the APEX could increase 80%, or gross income falls by 18%, operational sustainability still would be achieved. Similarly, the loan loss provision could increase by more than 150% before the FSA would be in a loss making position.

121. The above analysis indicates that an FSA can become quite profitable providing a reasonable range of services, while remaining under the ownership and control of its local members. The inclusion of additional services, such as acting as an agent for a CB would further broaden the range of services provided, and increase its operational sustainability.

Sub-component 1.2 Promotion of Agricultural Financial Products

122. The limited lending to agricultural sector activities and subsequent impact on agricultural development as outlined earlier, highlights the need to promote and make accessible, agricultural financial products. RFCIP2 seeks to help meet this shortcoming through the AFF and through increasing the capital of the CBs. These investments will contribute to the economic and social development of rural communities, by facilitating the provision of affordable, efficient and demand-driven financial products and services that meets the needs of the poor and rural agricultural sector. The capital increase and AFF should serve to increase the number of CB clients and FSA shareholders receiving loans; effectively, the number of incremental loans made over the life of RFCIP2 to FSA and CB shareholders could exceed 175,000.

123. **The Agricultural Finance Facility (AFF)**. The rationale for establishing the AFF specifically for agriculture lies in the expressed high unmet demand by smallholder farmers for credit. The limited interest by commercial banks to invest in agriculture, and the lack of outreach by other interventions that have sought to extend financial services to the rural poor makes the advent of the CB/ FSA network a very appropriate way to meet this demand for credit. The AFF is designed to fund this channel, ensuring that the rural poor (primarily smallholder farmers) are empowered to engage in agriculture as a business and thereby improve their level of food security and incomes.

124. Based on the demand expressed by the target groups, **three agricultural loan products have been identified as priority products for the AFF** and the capitalisation of the CBs: i) agricultural campaign loans; ii) agricultural rehabilitation loans; and iii) agricultural equipment/ processing loans[12]. Agricultural loan policies and procedures are being developed which provide guidelines on the loan purpose, target market, eligibility criteria, loan size, loan period, collateral requirements, interest rate and repayment terms and associated fees.

125. Generally, agricultural loan products will serve to provide financing to agricultural sector operators for working capital, inputs, small farm tools and equipment, rehabilitation of tree crops, and processing equipment (including construction of installation sites).

126. In the effort to channel financing to smallholder farmers, who are the immediate target group, generating a critical mass from the first year is essential. An important assumption that has been made based on field observations and an assessment of the needs of the immediate target group is that farmers are demanding on average Le 1,500,000 (approximately US$ 350) for agricultural campaign loans. While the full amount of the AFF and the outside investment in the capital of the CBs are required by law to be in funds at the time of registration of the APEX and the CBs, the drawdown from these funds will be dictated by prudent guidelines and best banking practices. Thus the AFF is not anticipated to be fully drawn down until the third year of RFCIP2. Of all of the loans extended, though, approximately 60% is expected to be directed to

[12] Note that under the AFF, agricultural campaign loans will not exceed – US$ 350; rehabilitation loans will not exceed US$ 500; and equipment/ processing loans will not exceed US$ 3000; furthermore, a single household will not access more than one loan. Through these measures, emphasis is placed on targeting the smallholder farmer, mitigating the risk that larger farmers absorb the AFF funds.

campaign loans, 20% to rehabilitation and the remaining 20% to equipment/ processing loans. This being the case, approximately 10,000 loans will be disbursed from the AFF in the second year. It will be essential that the impact of these loans on agricultural production and productivity is well monitored and documented.

127. An analysis of the loan disbursement and repayment suggests that by year 9, the total loans amount disbursed from the AFF will be approximately USD 38,000,000. The projected number of cumulative borrowers who had accessed to loans from the AFF would be approximately 94,000 (assuming no double borrowing).

128. **AFF investment guidelines**. A set of guidelines will be developed to provide instruction and guidance to the APEX, as well as to the participating RFIs (CBs/ FSAs), in the AFF's implementation on the operational modalities, rules and regulations. These guidelines will outline: eligibility criteria and procedures for selection of the participating institutions, a general description of the AFF refinancing activity, sub-project eligibility criteria for the different types of agricultural loan products, and the principal terms and conditions of AFF financing. Guidelines also will be included for loan approvals and disbursement procedures, accounts and audit arrangements, follow-up monitoring and reporting, loan recovery, reporting, and environmental standards.

129. **Management of the AFF**. Based on the TAA/ APEX's demonstrated capacity, its experience in managing the RFF pilot, and its contribution in achieving the strong results of RFCIP, the TAA/APEX will administer and manage the AFF on behalf of MOFED and the external investors. Effective management of the AFF is also largely assured by the existing staff within the TAA/APEX that have been competitively recruited under performance/results-based contracts. All professional staff in the TAA are former bankers from the private sector, who have been applying best practices to the CB and FSA models (thus resulting in PaR >30 days of 3% for newly established FSAs, for example) and who have developed the necessary tools, manuals, and methodologies that support RFCIP.

130. The APEX will sign an MoU with MOFED for managing and administering the facility. The APEX will not receive direct payment from the project for administering the AFF, rather it will generate revenue through the interest charged on loans to the CBs and FSAs in the first 3 years.

131. *The AFF interest rate*. The interest rate to be charged on loans by the AFF to the participating RFIs is based on the need for charging a "real" interest rate, and the necessity for the RFIs to earn enough interest "spread" on the loans they make so as to become operationally sustainable. Simultaneously it must ensure that the interest rates charged to the small farmers do not exceed the competitive rates already on offer. Concurrent with this is the need to create a sustainable rural finance network, following best practices, within a relatively short period of time. Furthermore, external investors have indicated that they are prepared to invest at the inflation rate plus a 2% spread. Based on these factors, it is proposed that the AFF will lend at an annual variable rate of the Sierra Leonean inflation rate plus a 2% spread, to be adjusted annually. Interest will be payable quarterly. Thus the immediate rate would be 12%. This rate matches the market rate at which external parties are prepared to invest, it is a "real" interest rate and has a reasonable risk premium of 2%. In turn the CBs and the FSAs will lend at their existing rates respectively of 30% flat plus a 2% commission and 2.5% flat plus a 1% commission respectively for 6 month loans. These rates represent the existing market rates and allow for the RFIs to build up their capital reserves and gain operational sustainability relatively quickly. Given the large un-served demand for loans, it seems that the IFAD client demographic are prepared to pay these rates, and they are far cheaper than the only alternative in remote rural areas, namely the money lenders who charged 10 times this rate. Furthermore, these end interest rates will enable the FSAs and the CBs to pay a higher rate of interest/dividends to their members/savers, thereby providing a fair balance between savers and borrowers and

encouraging more rural dwellers to save with their local RFI. Should the market rates for interest decline, and inflations falls, these rates would be reconsidered.

132. The participating CBs/FSAs will enter into MoAs (loan agreement) with the APEX, which will define, amongst other matters, the loan agreement itself, general provisions, disbursement, repayment and interest rates, execution of the scheme, and dispute resolution. To ensure transparency and accountability, the AFF will be audited on a yearly basis.

133. By the end of the project, **the exit strategy of the AFF** will be its transformation into a revolving fund, to be called the Agricultural Development Fund (ADF) that will be dedicated to short, medium and long-term loans for Agriculture. This Fund will be managed by the APEX under supervision of the MODEF, MAFFS and the external investors. The ADF will become a permanent strategic tool to stimulate agricultural development, through smallholder farmer-oriented credit. Should the AFF not be needed by the close of RFCIP2, it could be dissolved and the funds used to buy back the shares from the external investors.

134. A separate, independent Steering Committee will be established to provide general oversight for the AFF and the ADF.

135. **The Capitalisation of the Community Banks** (see para. 97-100) **and Investment Guidelines** are detailed in Appendix 4.

136. The proposed approach described above accords with IFAD's rural finance policy of charging market driven real interest rates and the limited, if any, use of IFAD funds to finance a line of credit. The AFF and the capital investments in the participating CBs will be professionally managed, and will be independent of political and government interference.

Component 2: Programme Management and Coordination

137. 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 programme management, and into the activities of the NPCU. The performance indicators of this component will include quality and timely execution of annual work plan and budgets, the punctual submission of progress reports and annual audit reports. An operational M&E system able to document key indicators, and actual levels of disbursements against planned outlays, will be established. Details of the component are provided in Appendices 5-8. All relevant data will be disaggregated by gender and age.

138. Since much of the NPCU-related costs are covered under existing programmes, RFCIP 2 will finance only the incremental costs incurred.

139. Additionally, selected studies will be funded, including the base line survey and impact studies of CBs, FSAs and the APEX, and audits. Additionally, studies to develop special purpose instruments for developing markets, such as long-term loans and for lending for poverty programmes will be supported.

140. Finally, this component also seeks to reinforce policy dialogue and exchange regarding rural finance, including gender issues, particularly through institutional support to the BoSL in terms of capacity building and policy review. This will include both training and assistance in implementing international regulatory and oversight standards, as well as vehicles and computers to strengthen their oversight capacity.

141. **Innovative features of the programme**. RFCIP2 builds on the innovative features of RFCIP1 and broadens their outreach. Most notably it will bring in private sector investment into agricultural financial services and will widen the range of services to be provided. By taking this approach, it reduces the amount of risk capital IFAD otherwise would have had to outlay for the programme, and will better link the small participant owned entities, such as the FSAs with the formal financial sector. Based on the successful implementation of the programme, the major

innovation will be that rural lending in Sierra Leone can be a profitable activity, and as such will encourage more private sector investment in rural banking services.

D. Lessons learned and adherence to IFAD policies

142. The lessons drawn from the experience of on-going projects in Sierra Leone (RCPRP, RFCIP, SCP-GAFSP) are presented in Appendix 3.

143. Main lessons focus on the need to: (a) keep the design of new projects as simple as possible, limiting the number of interventions but creating the environment for scaling them up in order to increase impact; (b) encourage increased ownership by communities and full involvement of beneficiaries throughout the design and implementation processes, in order to ensure relevance and sustainability of development activities; (c) reinforce donor coordination at national and district levels; (d) involve the private sector in commodity chains to bring about change in productive capacity at the farm level through support to input supply, production, storage, processing and marketing; (e) promote youth and gender equity by ensuring that targeting is reaching the intended target groups according to established criteria; (f) strengthen both the financial management and the monitoring and evaluation of on-going projects; and (g) keep a strong focus on developing the operational sustainability of all institutions being supported under the programme.

144. Key specific rural finance lessons learned are summarised below:

(a) Institutions must be regarded, and subsequently set up as **viable businesses**; feasibility studies should be undertaken, and business plans developed.

(b) Geographic and financial complementarity between FSAs and CBs must be assessed, especially regarding the products offered.

(c) Quality staffing of CBs/ FSAs is fundamental, through competitive recruitment based on professional criteria, and banking experience.

(d) Strong supervision and follow-up support to CBs/FSAs in the initial years is critical, including regular yearly audits.

(e) Good performance of the FSA (PaR >30 days, <5%) is an outcome of the combination of i) the strong professionalism of the staff, ii) the local ownership structure of FSAs/CBs which ensures good knowledge of the local socio-economic context, environment and client base , and iii) effective oversight by the TAA/APEX.

(f) Ownership of FSAs and CBs are held with local communities who are shareholders, members of the Board of Directors and leaders of the Credit Committee. This ensures their active participation in the good management of community finances.

(g) Capitalization of CBs and FSAs is key to ensure that: i) all shareholders can benefit from the institution in which they invest; and ii) financial needs of the rural population (agriculture, petty trade, etc.) can be met by these same institutions.

(h) Agricultural financing requires specific terms – duration, repayment conditions, grace period, etc. – in order to respond to the specifics of agricultural activities.

(i) CBs and FSAs need quality common services (audit, training, IT support, human resources management support) at an affordable cost.

(j) The APEX body needs to be founded by mature grassroots institutions that have a clear vision and understanding of the advantages/disadvantages and cost of entering in a federated organisation. It needs to be professionally managed and free of government and/or political influence

(k) Guaranteeing client investment requires adherence with BOSL regulation, which is obtained through i) minimum capital-requirement as deposit guarantee; and ii) regular supervision reporting (provided in conjunction with the APEX).

145. These lessons learned from previous and on-going projects/ programmes (IFAD supported, government and other donor-supported) have influenced the design of this second phase

programme.

146. **Compliance with IFAD Policies**. The design of RFCIP2 is aligned to all relevant IFAD strategies and policies, including: (i) IFAD's Strategic Framework 2011-2015; (ii) IFAD's Targeting Policy; (iii) IFAD's Policy on Gender Equality and Women's Empowerment; (iv) IFAD's Rural Finance Policy; (v) IFAD's Private-Sector Development and Partnership Strategy; (vi) IFAD's Rural Enterprise Policy; (vii) IFAD's Policy on Supervision and Implementation Support; (viii) IFAD's Policy on Sector-wide Approaches (SWAp) for Agriculture and Rural Development; (ix) IFAD's Country Presence Policy and Strategy; (x) IFAD's Environment and Natural Resource Management (ENRM) Policy; and (xi) Environmental and Social Assessment Procedures. Further details are provided in Appendix 12.

III. Programme implementation

A. Approach

147. The main focus of the programme is to strengthen the capacity of the finance service providers in rural areas, in order to increase their outreach and provide demand-driven services to rural communities. A key feature of the programme's approach is that it is business-oriented. This begins at the retail rural financial institutions (RFIs) level, where FSAs and CBs are established on the basis of sound and viable business plans and managed on business principles. This same approach will be adopted at the end-client level whereby **access to rural finance will also be conditioned on viable business plans**. Finally, it will be critically important that programme support is evaluated against results, and against the performance indicated in both the business plans and in the loan applications. All loan and support agreements, at both the wholesale and retail level, therefore, will be conditional on performance and results.

The 3-phased approach

148. Experience has shown that institutional building takes time. Based on this, a longer term programme of 9 years would be appropriate, to be implemented in three phases and which is conditional on key indicators that will trigger advancement to the next phase.

149. The three-phased approach allows for a progressive monitoring of the level of autonomy of the rural financial institutions and **implementation of the exit strategies**. It is important to note that the project's support (and the duration of that support) to the financial institutions are conditional on business plans, are performance and results-based, and which will be reflected in the Memoranda of Agreement between the project and these institutions.

The nine year project will have two interim reviews, one in year three and the other at the end of year six. For the first review, the objective will be to assess the performance and maturity of FSAs and CBs (given that most have been operating for a few years); the second review (in year six) will concentrate on assessing the performance of the APEX given the expectation that it should be operating autonomously within 2 years. An evaluation of the impact of the AFF on poverty and agricultural development will take place during both reviews. Overall, it is expected that all institutions (FSAs, CBs and the APEX) will have reached operational self-sufficiency by year four of the programme. For details, refer to the chart presented Appendix 5.

B. Organizational framework

Key implementing agencies

150. **Programme oversight**. Overall programme oversight will be undertaken by a Programme Steering Committee (PSC), which will be co-chaired by the Ministers of MAFFS and MOFED, and includes the Minister of MOTI, representatives of the external investors and some FSA/CB representatives to ensure an inclusive and harmonised approach to rural finance in Sierra Leone. The committee, which will have the NPCU as its Secretariat, will be responsible for

providing overall policy guidance, and the NPCU will monitor the implementation of the decisions made by the Steering Committee.

151. The main responsibilities of the PSC would be to: (i) Provide conceptual, strategic and political guidance to the NPCU for programme design, implementation and coordination of programme activities, including, if necessary, the formulation of development and implementation strategies; (ii) Ensure overall conformity with Government policies and strategies; (iii) Review programme progress and performance; (iv) Approve the Annual Work Programme and Budget (AWPB) of the entire Programme portfolio; (v) Resolve any implementation problems and/ or conflicts; and (vi) Assist the NPCU in obtaining, as may be required, Government assistance and contribution to the programme.

152. **MAFFS and MOFED**. As with RFCIP, the Ministry of Agriculture, Forestry and Food Security will be the lead implementing agency with overall responsibility for RFCIP2. In view however, of the substantial investment into RFCIP2, MOFED will be a critical and key strategic partner.

153. MAFFS will delegate the functional and day-to-day implementation and coordination responsibilities for the overall programme to the NPCU responsible for IFAD-financed projects.

154. With specific reference to the AFF, a MAFFS/MOFED partnership will delegate management and administration responsibility to the APEX as the key service provider/ implementation partner. Given the importance of the AFF, an AFF Steering Committee (separate from the Programme Steering Committee) chaired by MOFED will be established to provide oversight. Members of the committee will include: MOFED, MAFFS, CB representatives, FSA representatives, farmer organisations (e.g. NaFFSL), and other private-sector representatives from the rice, cassava and tree crops sub-sector; effectively, the composition of this steering committee ensures that the voices and interests of the different stakeholders are heard, and have technical input. The establishment of the Committee is critical, especially in the effort to ensure that the AFF becomes a sustainable mechanism that evolves into the Agricultural Development Fund administered by the APEX even after project completion.

155. **BoSL**. BoSL continues to hold overall oversight responsibilities for supervision and inspection of the APEX and the CB, and ensuring their compliance with the regulatory environment. However, with the expanding network of CBs and FSAs, and given the positive experience gained through the RFCIP, BOSL will delegate authority to the APEX to supervise the preparation of the regulatory reports of the CBs and forward them to the BOSL. In turn, the BOSL will supervise both the CBs and the APEX. The BOSL retains the right at all times to directly intervene in any CB or in the APEX itself. As an additional measure to safeguard quality standards, the BOSL will also have the responsibility of providing clearance for the final appointment of the APEX Managing Director and new senior APEX staff. A results-based MoU will be established between BOSL and the APEX to outline these arrangements. Furthermore, it is expected that upon project completion, these same arrangements will continue.

156. **NPCU**. The National Programme Coordination Unit plays a key role in project implementation, with a mandate that consists of coordinating programme activities, managing programme resources and monitoring programme operations. Its evaluation function is of particular importance. Specific responsibilities of the NPCU can be found in Appendix 5.

157. The present NPCU, which has successfully administered RFCIP1 and RCPRP, will continue to implement this second phase programme. Given the partition of responsibilities with the APEX (see below), emphasis will be placed on the general supervision/ M&E functions of the NPCU.

158. **The APEX**. As indicated, the APEX is the key service provider with delegated responsibility for technical advice and inspection functions for CBs and FSAs, and for administration of the AFF and the capitalisation of the CBs. In addition, the APEX provides a range of technical support and assistance services. To carry out its tasks, the APEX will enter into **results-based** contracts (MoUs) with (i) the NPCU based on the implementation of their business plan and (ii) the BoSL for the necessary delegation of authority to collect and forward regulatory reports.

159. As per the above arrangements, the APEX will be responsible for reporting to MAFFS/MOFED, BOSL, the NPCU and the external investors. As a key service provider with expanded responsibilities, the registration of the APEX under the OFS Act needs to be confirmed prior to project commencement.

160. **Strategic partnerships**. In addition to the key institutions involved directly in programme implementation, strategic partnerships with private sector actors and key donors will be pursued. However, for the purposes of enhancing ownership, the government will take the lead role in developing these partnerships, especially regarding the future policy environment around rural finance. For the present, there will be expected partnership with NASSIT and IFC; the World Bank and others have also expressed interest in working with the RFCIP2 RFIs to promote rural development.

Integration within the IFAD country programme

161. RFCIP2 will benefit from and contribute to the experience of other IFAD-financed projects, applying common approaches developed for procurement and M&E.

162. **Project Start-up Phase**. To facilitate a prompt start-up, the NPCU will continue day-to-day management of the on-going RFCIP1, which will allow for the undertaking of preparatory activities before and after signature of the financing agreement, up to the first project disbursement. Resources have been allocated for part of this process. The preparatory activities will be coordinated from existing funding. Preparation activities will be monitored by a committee including representatives of MAFFS, MOFED, etc. Activities will include recruitment, systems and procedures development, and launching of early tenders and studies. The NPCU coordinator will manage these activities.

163. **IFAD start-up support**. To improve start-up and early programme performance, IFAD will support a three to five day facilitated start-up workshop where the programme team and implementing agency staff will work together to understand the programme design documents and develop a full and common understanding of the programme. This activity is reinforced by the participation of government and NPCU staff in the design mission, particularly towards instilling greater ownership in the design process and in the programme itself.

164. During start-up, the roles, responsibilities and accountability of all implementers will be clarified and agreed. Their capacities will be assessed and matched with required skills so that capacity development plans are developed. Feedback mechanisms will be developed to enable quick decisions on what to adapt and improve in a flexible output-oriented manner. The workshop will be followed up by on-going coaching during the first year of implementation.

165. **Conditions for disbursement.** The following conditions need to be met in order for IFAD to make the first disbursement of programme funds:

- The first AWPB and PP receives IFAD's no-objection;
- MAFFS opens the RFCIP2 Designated Account in USD and the RFCIP2 Operations Account in Le in a commercial bank acceptable to IFAD;
- A revised draft of the RFCIP2 programme implementation manual is submitted to IFAD;
- The appointment or recruitment of the APEX Managing Director;
- Preliminary approval from the BOSL is received for the registration of the APEX under the OFS Act, 2001.
- Establishment of the MoU between the BOSL and the APEX;
- TAA/APEX has strengthened its accounting capacity and internal controls through a modified internal audit function;
- TAA/APEX has properly configured its accounting systems to meet IFAD's standards;
- TAA/APEX has developed a draft Financial and Administration Manual;

- The APEX opens three accounts for i) the AFF ii). the capitalisation of the CBs, and iii) other operations; and
- The AFF Steering Committee and Programme Steering Committee are established.

C. Planning, M&E, learning and knowledge management

166. **Objectives and approach.** A system to integrate planning, M&E and knowledge management (KM) will be developed in the very early months of programme implementation (including a detailed KM action plan), with the objective of: (i) providing stakeholders with information and analysis required to steer programme implementation; i.e. to assess performance, detect difficulties and successes, identify lessons and support decision-making to improve programme performance; (ii) providing MAFFS and other concerned ministries (MOFED, MOTI) with information on progress, so as to measure programme contribution to the implementation of the NSADP and NAIP more generally, and to support coordination and synergies with other on-going development projects; (iii) monitoring programme influence and impact on building participatory processes that ensure full participation of the vulnerable, and as to avoid elite capture; (iv) providing participating communities with regular feed-back reports containing analysis and comparative data so as to provide them with a good basis for requesting the support services they require; and (v) informing the IFAD Country Programme Management on achievement of COSOP targets. The NPCU will manage this system with the Planning, Evaluation, Monitoring and Statistic Division (PEMSD) of MAFFS.

Planning

167. The integrated planning and M&E cycle will start with the preparation of the Annual Work Plan and Budget (AWPB), that utilises a demand-driven and bottom-up approach involving the participation of beneficiaries and all programme stakeholders (note that the RFCIP2 AWPB will be adopted by the Steering Committee before the beginning of the year and submitted to IFAD for non-objection). As monitoring and evaluation are two distinct functions, monitoring remains a management matter to be based on the parameters established in the logical framework of the programme. Monitoring indicators are based on the Annual Work Plan and scheduled programme activities; financial monitoring will take place against the Budget associated with the Annual Work Plan. It is also worth mentioning that institutional performance monitoring (of CBs, FSAs) forms an integral aspect, and which is the responsibility of the APEX as the key service provider. Physical and financial monitoring is a function and responsibility of implementing partners and management, who will be responsible for regular reporting. The NPCU will analyse monitoring reports throughout implementation to compare progress achieved against those projected in the AWPB, allowing programme staff to make timely and informed decisions, as well as capture lessons and good practices. As described in the M&E manual, evaluations will be undertaken through regular and timely studies, two interim reviews and impact surveys that will allow the measuring of outcomes and impact of RFCIP2.

Monitoring and evaluation

168. The integrated system will: (i) measure the achievement of the logical framework indicators (including 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, and specifically on vulnerable households, women and young people; (v) identify successes and good practices; and (vi) share knowledge under appropriate formats with programme stakeholders to support dialogue and decision making. The system will therefore be <u>open</u>, i.e. its use will not be restricted to programme or government agencies staff, but also provide information and learning for all stakeholders, including the programme's beneficiaries; <u>participatory</u>, i.e. include programme stakeholders, and specifically communities and farmers, in the definition of indicators, data collection, analysis and dissemination of results; <u>focused</u> on

analysis and learning in support of decision making and policy dialogue, and not merely on data collection; and connected to MAFFS and government information systems. M&E and KM officers within the NPCU and PEMSD will be key resources in conceptualising and in implementing the system.

169. **Data management.** The APEX and NPCU M&E/ KM specialists will work together with stakeholders to (i) agree on a shared understanding of programme objectives, approaches and planned activities; (ii) agree on a vision of the objectives and expected results of the system, as well as on a broad framework for M&E and KM and on priority actions to implement it; (iii) identify quantitative and qualitative indicators to initiate the system, both at the global level (based on an updated logical framework) and within each component. Indicators will be developed with relevant stakeholders at each level; will be coherent with national information systems; gender-disaggregated; and easy to collect. Key data will be collected by participants (financial institutions, decentralised authorities) as part of their management systems. Relevant national poverty data and assessments, and data/ information from other on-going projects will complement the information generated within the programme, and will also be used for measuring impact.

Learning and knowledge management

170. A knowledge-sharing and learning culture within the programme and with all stakeholders will be encouraged. There is a need for sharing best practices and lessons learnt with other partners in the agriculture sector, and also with IFAD-supported projects in the region through the IFAD Africa network. Through a combined effort, the Planning, Evaluation, Monitoring and Statistics Division (MAFFS) and the NPCU for IFAD-funded projects/ programmes should be more pro-active in capturing experiences and lessons generated by other government and development partners financed projects/programmes; ensuring integration of M&E and KM across projects/ programmes will be fundamental to further learning and inform future interventions by IFAD, government and other development partners.

D. Financial management, procurement and governance

171. **Financial management**. The programme will be implemented through GOSL financial management systems, and will adopt an accounting system consistent with international accounting standards and government requirements. MAFFS will be responsible and accountable to government and IFAD for the proper use of funds in line with the legal agreement.

172. Disbursements under the RFCIP2 will be transaction based. Payments under all categories will be apportioned on a 50:50 pari passu basis between the loan and the grant. Direct Payment and Designated Accounts (DA) methods as well as SOE (Statement of Expenditures) mechanism will apply as appropriate. Two Designated Accounts (one for the loan and one for the grant) will be opened to facilitate payment for eligible expenditures. For the purposes of streamlining procedures and reducing the processing time, the RFCIP2 designated account will be operated under the joint signature of the Project Coordinator and the Financial Controller of the NPCU. Withdrawal applications are approved by NPCU (Project Coordinator and Financial Controller) and two representatives of the Ministry of Finance. Quarterly financial reports are required by the Accountant General of the Ministry of Finance prior to approval of withdrawal applications. Disbursement procedures will be described in the updated Administrative, Accounting and Financial Manual, Letter to the Borrower and Disbursement Handbook. The allocation of each Designated Account will cover approximately six months expenditures. The minimum value of applications for replenishment is 20% of outstanding advance made to each designated account.

173. **Procurement**. Sierra Leone adopted the Public Procurement Act in December 2004. In general, Sierra Leone procurement laws and regulations do not conflict 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 Guidelines, and as may be amended from time to time, and will comply with IFAD's prior-review requirements up to the threshold set for goods, works and services. Each contract to be financed by IFAD financing will be included in the Procurement Plan prepared by the NPCU and agreed with IFAD. Where required, service providers will be hired through performance-based contracts.

174. **Audit arrangements.** The Financial Agreement will require the project to submit annual Audited Financial Statements to IFAD within six months after year-end. Under the project the NPCU and TAA/APEX will provide either consolidated or separate annual audits in accordance with IFAD's guidelines on project audits. External auditors with qualification and experience satisfactory to IFAD will be appointed to conduct an annual audit of the project's financial statements. An opinion on the Audited Project Financial Statements in compliance with International Standards on Auditing (ISA) will be required. An opinion on the utilization of the Designated Accounts, Statements of Expenditures and internal control systems will also be required. In addition to the standard audit opinions outlined above, the external auditors will be required to issue a separate opinion on the utilization of the Agricultural finance facility (AFF) managed by the TAA/APEX. IFAD supervision mission reports will be reviewed and taken into account in the auditors' opinion. The external auditors will prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls, compliance with financial covenants in the Financial Agreement and compliance with previous year's auditors' recommendations.

175. **Governance**. With a 2011 Corruption Perception Index rating of 2.5 (out of high score of 10), the Government has made the fight against corruption a national priority. To this end, and in alignment with national efforts, the continued promotion of principles of good governance in programme design and implementation is highly relevant. This entails a sustained effort to pursue dimensions of good governance, including fiduciary management, supply-side and demand-side measures. Whilst supply-side measures refer to strengthening internal efficiency and effectiveness in delivery of public goods and services, focus in the context of RFCIP2 will be placed on demand-side initiatives that support the active participation of beneficiaries/ clients, giving their voice to decision-making and monitoring processes for achieving development outcomes. Principles of transparency, accountability and participation will be upheld, requiring sensitization of communities in good governance principles and processes to mitigate the risk of corruption and promote more effective utilisation of project resources.

176. To address the governance issue, the project has identified key elements that need to be promoted and mainstreamed during programme implementation. The following measures include: (i) increased and consistent disclosure of information to a wide audience, particularly at the community level (including an effective programme communication process); (ii) encouraging beneficiary/ civil society oversight, more especially for monitoring purposes and to ensure that project-related information can be discussed openly (note that FSAs, CBs and farmer organizations will also be represented in 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. The elaboration of these measures will lead to greater transparency and accountability in programme implementation, and will be highly complementary and integrated into the efforts to enhance community development. A Governance and Anti-Corruption (GAC) Framework will be elaborated, specific to RFCIP2.

E. Supervision

177. The programme will be supervised directly by IFAD. Annual supervision missions, including follow-up missions where needed or relevant, will be organised with the participation of government (MAFFS, MOFED), implementing partners and beneficiaries. Supervision will not be conducted as a general inspection or evaluation, but rather as an opportunity to assess

achievements and lessons jointly, and to reflect ways to improve implementation and impact. Missions will be an integral part of the KM cycle, with mission members playing a supportive and coaching role for programme staff and service providers.

178. Two joint interim reviews will be organised by government and IFAD in years 3 and 6/7, in close collaboration with the above-mentioned stakeholders.

F. Risk identification and mitigation

179. The following table identifies main risks and mitigation measures.

Risk	Mitigation	Rating
At "Development Objective" level		
Limited linkage between improved access to an enhanced rural finance system and the development of the agricultural sector	i. Establishment of the AFF and the capitalisation of the CBs to promote this linkage; ii. Sensitization and informing-sharing with communities and commercial banks; iii. Use of the TAA/APEX.	Low
At "Outcome" level		
Lack of control on operations of CBs and FSAs	i. The APEX will continue to provide technical support and training to ensure that CBs and FSAs emerge as viable entities; ii. APEX software allows for daily monitoring of FSA/ CB transactions; iii. Project support is conditional on the CB/FSA business plans and more especially, on performance; iv. Annual audits of CBs and FSAs, as well as an annual audit of the APEX will be undertaken. v. Oversight of the CBs and the APEX by the BOSL.	Low
Capacity of the APEX management and potential political interference in the operations of the APEX.	i. To minimise political interference, existing TAA/APEX staff (all from the private banking sector) have been recruited through open competition and with performance-based contracts; new staff will be recruited through the same means; ii. The APEX will be governed by a representative Board comprising the public sector (MAFFS, MOFED) and private sector (FSA, CB, outside investors (NASSIT), NAFSL, individual professionals); iii. The BOSL will continue to supervise the APEX.	Medium
CB/FSA default on AFF repayments.	i. TAA/APEX is managing the AFF and the CB capitalisation, and takes the main responsibility for loan recovery; ii. TAA/APEX has extensive knowledge of a) FSA/CB performance and staff; and b) context and potential of the FSA/CB, allowing for highly professional assessment of their performance; iii. The AFF will be provided on a revolving line of credit basis and subject to an annual performance review; iv. The AFF will be subject to annual audits.	Medium

IV. Programme costs, financing, benefits and sustainability

A. Programme costs

180. **Main assumptions.** The programme duration is 9 years, starting in July 2013 (start FY 2013/14). The base exchange rate used is Le 4,350 to USD 1, the prevailing rate in October 2012. Information on taxes applied and rates used and other financial parameters used in the analysis are provided in Annex 9. The total indicative cost estimate for this 9 year project is approximately USD 38.1 million (detailed programme costs are provided in Appendix 9).

181. **Components Programme Cost Summary**

Sierra Leone
Rural Finance and Community Improvement Programme (RFCIP2)
Components Project Cost Summary

	(SLL '000)					(US$ '000)				
	Local	Foreign	Total	% Foreign Exchange	%Total Base Costs	Local	Foreign	Total	% Foreign Exchange	%Total Base Costs
A. Consolidation of the Rural Finance System										
Sustainable and autonomous rural financial institutions	110,929,056	4,982,360	115,911,416	4	73	25,738	1,156	26,894	4	73
Promotion of agricultural financial products through the AFF	21,550,000	-	21,550,000	-	14	5,000	-	5,000	-	14
Subtotal Consolidation of the Rural Finance System	132,479,056	4,982,360	137,461,416	4	86	30,738	1,156	31,894	4	86
B. Project Management and Coordination	18,507,787	3,327,406	21,835,193	15	14	4,294	772	5,066	15	14
Total BASELINE COSTS	150,986,843	8,309,766	159,296,609	5	100	35,032	1,928	36,960	5	100
Physical Contingencies	1,921,010	-	1,921,010	-	1	446	-	446	-	1
Price Contingencies	12,322,672	1,395,932	13,718,604	10	9	668	74	742	10	2
Total PROJECT COSTS	165,230,525	9,705,699	174,936,223	6	110	36,145	2,002	38,147	5	103

B. Programme financing

182. The RFCIP2 will be financed by IFAD (50% loan and 50% grant), the Government of Sierra Leone, NASSIT, IFC, and beneficiaries. The IFAD contribution will amount to USD 22.3 million in the form of a 50% loan and 50% grant. NASSIT contribution is USD 6.9 million, financing the AFF, the equity for Community Banks and the capitalisation of the APEX. IFC contribution[13] of USD 1 million will co-finance the APEX capitalisation. Government contribution is estimated at around USD 4.5 million to cover taxes and duties (12% of total costs) and the fixed assets contribution to the APEX. Approximately around USD 3.4 million (9% of total costs) would be provided by beneficiaries under Sub-component 1.1 in particular.

Sierra Leone
Rural Finance and Community Improvement Programme (RFCIP2)
Components by Financiers
(US$ '000)

	The Government		IFAD		Beneficiaries		NASSIT		IFC		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
A. Consolidation of the Rural Finance System															
Sustainable and autonomous rural financial institutions	3,705	13.4	17,575	63.6	3,477	12.6	2,890	10.5	-	-	27,647	72.5	1,177	23,765	2,705
Promotion of agricultural financial products through the AFF	-	-	-	-	-	-	4,000	80.0	1,000	20.0	5,000	13.1	-	5,000	-
Subtotal Consolidation of the Rural Finance System	3,705	11.3	17,575	53.8	3,477	10.7	6,890	21.1	1,000	3.1	32,647	85.6	1,177	28,765	2,705
B. Programme Management and Coordination	760	13.8	4,740	86.2	-	-	-	-	-	-	5,501	14.4	825	3,915	760
Total PROGRAMME COSTS	4,465	11.7	22,316	58.5	3,477	9.1	6,890	18.1	1,000	2.6	38,147	100.0	2,002	32,680	3,465

C. Summary benefits and economic analysis

183. **Beneficiaries**. RFCIP2, through the direct support to the rural financial system, will reach a population of around 285,000 farming households as it is reasonably expected that each Community Bank will reach out to 10,000 rural households, and each FSA will reach 1,000 rural households on average. The majority of these households will benefit from agricultural campaign loans, though some will benefit from rehabilitation and equipment loans.

184. **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 financial services and products offered, the programme would have significant impact in terms of improved farming activities, agricultural production and the important increases to yields and productivity.

185. Project support to FSAs and CBs, including equity investment in the CBs and support from the APEX, will lead to the improved performance of these institutions, in terms of financial performance and quality of services. It is expected that improved services provision by FSAs and CBs will allow them to expand their outreach, offer more diversified products (particularly agricultural credit/ lending) and achieve higher profitability and viability which would ensure their sustainability and operational self-sufficiency. Other benefits including *institutional benefits* will also include: (i) enhanced ability of CBs/FSAs to provide a range of agricultural financial products to small farmers and SMEs in the agricultural sector, (ii) improved integration of informal and semiformal institutions into the financial sector, (iii) improved capability of BOSL, MOFED to perform respective mandates; and (iv) improved provision of common services to the CB/FSA network through the APEX.

186. The expected principal benefits of RFCIP2 over the 9 year lifespan will be as follows: i) 285,000 rural households having access to at least 1 financial product; ii) 175,000 rural loans extended nationwide; iii) USD 72,000,000 in incremental lending to the rural sector; iv) 87 sustainable and profitable FSAs and CBs with improved financial performance by 2017; v) a sustainable

[13] In the event IFC co-financing is not confirmed, NASSIT will finance the capitalisation of CBs in full.

apex organization 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.

187. **Economic viability and sensitivity analysis**. The economic internal rate of return (ERR) of the programme is estimated at 11.3 percent with a net present value (NPV) of US$ 2.1 million. These results indicate that, on the basis of an opportunity cost of capital of 10 percent, the programme will generate a satisfactory ERR and is therefore justified on economic grounds; results of the sensitivity analysis are also summarized in Appendix 10. The RFCIP2's economic viability is robust to adverse changes in programme costs, and the programme still remains viable with increases in capital and recurrent costs or in delay of benefits.

188. **Benefits to the economy**. The RFCIP2 through the project interventions, will have a number of benefits to the economy; these include: (i) employment generation at the level of the APEX and financial institutions (sustainable staff positions and new staffing) and at the farm level through hired labour; (ii) incremental government revenue through tax revenues from increased volume of taxable production, payment of VAT on the farm inputs which will be purchased by farmers who have accessed agricultural campaign loans, and income tax from generated employment; (iii) increased percentage of loan portfolios directed at productive loans; and (iv) improved efficiency and stability in the financial sector.

D. Sustainability

189. The RFCIP2, in its approach, phasing, and compliance with prudent best practices, has been designed to ensure sustainability of the rural financial system network and its continued growth in the country, and is by virtue, similarly the well-defined exit strategy for cessation of IFAD's support to the rural finance sector. The RFCIP2 will help create sustainability on several levels:

(a) There will be 87 operationally sustainable RFIs providing a range of services to the poor, rural segment of the population. These RFIs will be owned by their members and providing a range of services, in savings, credit and other financial products to their clients.

(b) The APEX bank will be operationally sustainable and will be managing a rotating wholesale credit fund. Additionally, it will be providing technical and management services to the RFI network.

(c) Through the access to savings and credit services, the individual farmers and small businesspeople will have incremental capital to invest to grow their businesses, and a means to diversify their sources of income. This will help their activities to become more profitable and will help alleviate poverty.

(d) The CBs, and to a lesser extent the FSAs, will bring more people into the formal financial sector, thereby strengthening the deposit and liquidity bases of the sector.

(e) The BOSL capacity to exercise effective regulations and oversight of the rural financial sector will be enhanced, thereby strengthening the operations not only of the BOSL itself but also of the entire banking system.

(f) External investors will have found that outlays can be made to the rural sector on a profitable, managed risk basis.

Appendix 1: Country and rural context background

Introduction

1. In line with the current 2010-2015 COSOP, a second phase Rural Finance and Community Improvement Programme (RFCIP2) has been jointly conceived by IFAD and the Government of Sierra Leone to build on the achievements and success of the RFCIP, thereby consolidating the rural financial system in Sierra Leone and **establishing stronger linkages with the agricultural sector**. This follows the recommendation arising from the RFCIP mid-term review, and the request by the Government to consolidate the efforts in increasing access to rural finance and agricultural financial products. 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.

Country economic background

2. Sierra Leone belongs to the group of the Least Developed Countries (LDC), and participates in the Highly Indebted Poor Countries (HIPC) initiative. The country meets FAO criteria as a Low-Income Food Deficit Country (LIFDC), and ranked 180 out of 187 under the UN Development Programme's (UNDP) *Human Development Report 2011*. Its population is estimated at 5.8 million (2010) with an average annual growth rate of 2.1 percent. About two-thirds of the population live in rural areas and about 70 percent live below the poverty line, most in severe poverty; about 60 percent of the youth (non-school-going 15-year olds to 35-year old adults) are either unemployed or under-employed; in 2009, life expectancy at birth was 48 years and adult literacy was 41 percent of the adult population; the female literacy rate was 26.8 percent.

3. The country experienced an average annual growth rate of 2.1 percent[14], which is projected to double by 2050. Per capita income has been increasing over time from USD 490 (2000) to USD 808 (2009)[15]. Agriculture – including fisheries and forestry - contributes about 46 per cent of GDP and provides employment to about 70 per cent of the population, mostly small-scale farmers and predominantly women. As such, it is expected that efforts in this sector will have a major contributing impact on the country economic situation, and will be translated into improved livelihoods for the rural population.

Agriculture and rural poverty

4. **Rural poverty.** Rural poverty in Sierra Leone is widespread and deep. About 26 per cent of the people are food-poor and have difficulty meeting dietary requirements, while 70 per cent live below the poverty line. This poverty is directly linked to the problems faced by agricultural production and commercialization. Food insecurity is also more pronounced in households headed by women than in those headed by men. At the same time, there is widespread regional disparity in the incidence of poverty, with rural areas, where two thirds of the population live, being the hardest hit.

5. **Agriculture potential**. The agricultural sector is the priority sector for poverty alleviation in Sierra Leone today, evidenced by the allocation of 10% of the national budget to the Ministry of Agriculture, Forestry and Food Security (MAFFS), in line with the Maputo Declaration. The sector has also been growing in strength and prospects for further growth look promising. Between 2008 and 2009, the sector grew by 4 percent. Furthermore, all the sub-sectors experienced output growth, especially crop production with a 5.2 percent growth rate, having benefitted from such policy interventions like Government's commercialization policy (farm mechanization, processing and marketing).

[14] Human Development Report (HDR) 2011
[15] HDR 2002 and 2011

6. Staple grains and export crops contribute about 30 and 50 percent of the agricultural GDP respectively, with further potential for growth as the agro-industrial sector grows (e.g. Addax for bio-fuel; oil palm and poultry industry, etc.). Furthermore an estimated 300,000 smallholder farmers, cultivating between 1 and 3 hectares, are also reaping rewards, moving from a subsistence level of farming towards greater commercialisation of produce. Private sector medium and large scale agricultural production schemes have been established for food crops, as well as tree and cash crops for both domestic and export markets. It is through these evolving partnerships and the changing mind-set towards more business-oriented agriculture, that smallholder farmers are gaining a better footing. Therefore, although private investments by larger-scale farmers and enterprises are still low but improving, **interest in Sierra Leone in investing in agriculture and agribusiness is increasing**.

7. To capture the benefits of this momentum, constraints faced by farmers today still need to be addressed. Among the constraints faced by farmers, access to inputs is considered as a major hurdle preventing improved productivity and production increases. Value-addition is low in the absence of modern processing equipment, and inadequate rural infrastructure (roads) confines farmers' access to markets. More broadly, farmers also suffer from limited rural services, including access to financial services (it is estimated that currently, only 5 percent of farmers have access to financial services).

8. Given these challenges, the Ministry of Agriculture, Forestry and Food Security (MAFFS), in charge of the agricultural sector, is working with development partners (IFAD, GAFSP, other donors) in addressing many of these issues and facilitating the necessary enabling environment. Progress is being made to improve rural services provision, particularly through such programmes as the Smallholder Commercialisation Programme-GAFSP, whereby strong emphasis is being placed to move agricultural production to a level allowing for increased commercialisation for improved rural incomes. Through such programmes as the SCP-GAFSP, a holistic approach of improving access to credit, infrastructure and extension services is being rolled-out, with an increasing opportunity to leverage on the expansion of Farmer-based Organizations (FBOs) and Agricultural Business Centres (ABCs) as units providing the space for agro-service facilities.

National strategies and the institutional framework

9. The PRSPII 2008-2012 was launched in 2008 as the "Agenda for Change" by the present Government, and which focused on four priorities: power, transportation, agriculture and human development. The PRSPII is built on a problem-and-needs analysis, as well as the progress made and lessons learnt from implementation of the previous PRSP.

10. **Agricultural Policy**. The Ministry of Agriculture, Forestry and Food Security (MAFFS) has developed the National Sustainable Agriculture Development Plan 2010-2030 (NSADP) under the umbrella of the Comprehensive Africa Agriculture Development Programme (CAADP) with the broad involvement of all stakeholders. The NSADP sets out ambitious targets: (i) Increase in the agricultural sector growth from its current 4% to 7.7% per annum by 2015; and (ii) increased incomes of farming households by 10 percent and increased household food security by 25 percent. In order to reach these targets, the MAFFS's main strategic policy orientations are to foster agricultural productivity, to promote commercial agriculture through the private sector, and to improve research and extension services. In particular, the MAFFS approach has a strong focus on private sector and value-chain development.

11. At the core of the NSADP is the **Smallholder Commercialisation Programme** (SCP). MAFFS has developed a USD403 million **National Agricultural Investment Plan (NAIP)** for the implementation of the SCP covering the years 2010-2014 divided into six components: (i) Improving smallholder production and commercialisation by setting up 2,750 FBOs and building 650 Agricultural Business Centres (ABC) nation-wide; (ii) Developing small scale irrigation to boost rice production on 18,000ha of land; (iii) **Providing better access to financial services**

specifically tailored to rural farming groups or individuals through the creation of 130 new Financial Services Associations (FSA); (iv) Improving access to markets by rehabilitating and maintaining 4,000km of feeder roads; (v) Providing a social protection safety net to vulnerable households to increase food security and nutrition for 1,5 million people and (vi) Implementation and support. All on-going and future Government and donor funded projects and programmes in the smallholder agricultural sector will be aligned with the NAIP.

12. **Financial sector policy**. The Government, in partnership with the Bank of Sierra Leone (BoSL) has highlighted the importance of promoting financial sector development to support overall national growth objectives and poverty reduction strategies. It is well recognized that financial sector development, especially improving access to finance by building and sustaining a responsive financial sector, is an important aspect in prioritization of the agricultural sector and encouraging private sector growth; i.e. related activities can only be financed with an efficient and effective financial system. These principles are thus articulated through Government's Financial Sector Development Plan (FSDP).

13. It is worth mentioning that the **Community Bank and FSA models are fully integrated into the national policy, as is specifically articulated in the FSDP**. Integral to the FSDP are actions geared towards improving the efficiency, quantity and quality of services provided by the financial sector through more effective financial intermediation, reduction of transaction costs, and direction of resources into productive investment. It should be highlighted here that **increased access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks is one of four identified priority areas in the FSDP**. Effectively, the CB/FSA network has become a critical institutional policy mechanism to alleviate national poverty.

14. Recently, the GOSL has taken a decision to revive the National Development Bank (NDB), with a new mandate, concept and ownership. The proposed new mandate thus has a very clear focus on the agricultural sector. The bank will function as a development financial institution geared towards: i) agricultural development; ii) agro-industry; and iii) SMEs. This strategy will compliment rather than compete with RFCIP2, since the latter focuses primarily on smallholder agriculture, although there may be some overlap in the larger farmer/larger SME segments. In the main, though, this will be avoided by the RFCIP2's focus on poverty alleviation, avoidance of political influence and the smaller loan sizes.

The current status of rural finance in Sierra Leone

15. More than 70% of Sierra Leone's population are in rural areas and 70% live below the national poverty line of $1.25 per day. The main economic activity of the rural population is peasant farming. These factors, combined with very poor infrastructure, a low level economic activity and a widely diversified population result in high transaction costs. These factors militate against the extension of the right type of financial services into the rural areas needed to promote intermediation and efficiently allocate resources to the rural economic actors in order to accelerate rural economic growth and development. This gap in financial services creates room for informal sector money lenders whose services do not meet the needs of the farmers, since they lend for very short-term and at very high interest rates. The main players in the financial sector are the following.

16. **Commercial Banks.** The formal financial sector in Sierra Leone has always been dominated by commercial banks. As at 31/12/2011 there were 13 Commercial banks[16] with a branch network of 87 branches located mainly in District Capitals and some semi-urban centres. Forty-six (46) (i.e. 52%) of the branches are located in Freetown; and no other District has more than one branch of a bank. Apart from Freetown; Kenema, Bo and Kono had 7, 6 and 5 respectively of total number of bank branches. Four other Districts, Pujehun, Kailahun, Kambia and Port Lokko were each served by only one branch. It is obvious that the commercial banks have not

[16] Source: BOSL Annual Report 31/12/2011

extended services deep enough into the rural areas.

17. Most of these banks (i.e. 10 out of 13) are foreign owned with foreign shareholdings[17] ranging between 81% and 100%. There is little incentive for such foreign owned banks to extend branches into rural communities with poor infrastructure and low economic activity.

18. In terms of product offerings, even without empirical evidence, the target clientele of commercial banks are not the small and micro operators, nor rural farmers. Indeed, without a presence in the rural areas there has been no incentive to formulate products for small rural economic operators.

19. The industry indicators in the table below show an industry with sound capital base and more than adequate liquidity to accommodate unexpected losses. However they also depict a strategy of risk averseness.

	2011		2010	2009
	Actual (%)	**Required (%)**	**Actual (%)**	**Actual (%)**
Capital Adequacy Ratio	26.96	15	15.79	33.97
Liquidity Ratio	54.61	25	58.68	53.37
Non-performing Loans Ratio	15.08		15.61	16.54

20. The non-performing loans to total loans ratio (NPL ratio) is slowly trending downwards, from 16.54% in 2009 to 15.08% in 2011, but has remained high over the three year period. The inference from this is a high probability of default which could be the reason why banks would prudently hold high levels of capital (CAR of 26.96%) and liquidity, (liquidity ratio of 54.61%) well in excess of requirements.

21. In such a situation those potential clients considered to be in a high risk category, such as rural farmers and small and micro businesses, would not be considered as good business risks by commercial banks.

22. **Microfinance Institutions.** According to the BoSL Annual Report for 2011 there were six (6) licensed deposit-taking MFIs with 62 branches. Three of these, Brac, Finance Salone, and Salone Microfinance Trust Limited have 42, 11 and 5 branches each respectively. Most of these branches are urban and semi-urban based. The BOSL is in a process of registering other operating MFIs that were not reported in the 2011 Annual report. Information on some of these (LAPO, ARD and Hope) is included in the table below.

23. The key MFIs receive external funding[18] support from institutions like, UNCDF, Kiva and CORDAID to finance their lending activities. BRAC in particular is mainly funded by BRAC International. In addition some of them take an upfront deposit, between 20% - 30% of the loan granted, as a form of cash collateral from loan beneficiaries.

24. The MFIs in Sierra Leone extend credit which is repayable by small monthly instalments without any grace period. This was confirmed by BRAC, ARD and Finance Salone branches in Kenema. The terms and conditions on which the MFIs extend credit to commercial enterprises are not suitable for agricultural lending due to their short maturity, frequent repayments, and the lack of any grace period.

25. Most of the MFIs prefer to deal with female customers and table below shows the preference of MFIs for female customers. This means that a significant section of the population (males) is not factored into their programmes and services.

[17] MITAF II Joint Project Document
[18] http://www.mixmarket.org/mfi/country/Sierra%20Leone

26. The main business model the MFIs use is the group lending approach, since most of their clients do not own property to use as collateral.

27. From the information obtained, the services of the MFIs do not address the needs of the majority of rural people, who are essentially small scale farmers.

MFI	Date Est.	Offices	Funding	Report Date	No. of Active Borrowers (Female in %)		Gross Loan Portfolio	Ave. Balance Per Borrower	Deposit Balance Per Depositor	PAR >30 Days
Finance Salone (NBFI)	2001	-	i. UNCDF ii. CORDAID	2007	22,926	51%	2,457,753	107	0	5.49
ARD (NGO)	1986	4	i. UNCDF ii. CORDAID iii. Kiva	2008	12,666	70%	1,210,411	96	33	2.03%
LAPO SLE	2007	11	i. UNCDF ii. Kiva	2009	11,322	100%	869,359		29	4.03%
Hope Micro (NGO)	2005	3	i. UNCDF	2009	20,760	85%	1,338,951	65	224,489	58.8%
Brac - SLE	2008	43	i. Brac Intl. ii. Kiva	2011	21,308	98%	2,723,964	128	-	25.68%

28. **Community Banks (CBs) and Financial Service Associations (FSAs).** The BOSL, aware of the gap in the delivery of financial services to rural communities took a number of initiatives before and after the conflict to get community banks established in the rural districts. In recent years, the Central Bank organised the establishment of 6 community banks (CBs) between 2003 and 2006. The BOSL provided funding for the office building and provided some equipment and working capital to get the banks operational. These banks encountered difficulties arising from poor governance practices. Consequently, on the inception of RFCIP1 they were handed over to IFAD to be restructured and reorganized in order to perform their functions more effectively and efficiently. Under RFCIP1 seven (7) more CBs have been established and by end 2014 there will be 22 CBs in existence with at least one in every District.

29. As at 31/08/2012 statistics available at the Technical Assistance Agency (TAA) on CBs were as follows.

Details	31/08/2012	
	Le	USD
Deposits	10,997,252,800.00	2,557,500.65
Active savers	19,374	-
Loan Outstanding	8,150,816,987.00	1,895,538.83
Average loan size	1,130,343.00	262.87
Active loan clients	11,654	
Average PaR> 30 RFCIP CBs	3%	
PaR>30 for 4 Restructured CBs	13%	

30. In less than 10 years CBs have mobilized about USD2.6 million equivalent of deposits from 19,374 active savers and extended USD1.9 million in loans to 11,654 active loan clients in communities. The average loan size of about USD263 is more than what other MFIs are extending, as shown in table 1 above. The table below shows statistics of some of the operating CBs.

	CB	Active No. of Borrowers (Female in %)	Gross Loans	Ave Loan Size	PAR	Active Savers (Female in %)	Voluntary Deposit Balance
	BOSL CBs						
1	Segbema	2,146 (n/a)	Le607,112 $141,189	Le283 $66	11%	3,286 (35%)	Le1,078,427 $250,797
2	Zimi	88 (56%)	Le201,000 $46,000	2,248 $523	12%	546 (56%)	n/a
3	Mattru Est. 2003	557 (n/a)	Le289,774 $67,389	520 $120	65%	2642 (n/a)	Le1,871,530 $435,240
4	Kabala 2003	651 (46%)	Le1,252,249 $219,220	1,924 $447	16%	3793 (n/a)	Le2,736,563 $636,410
	RFCIP CBs						
5	Nimiyama Est 08/2010	360 (50%)	Le440,310 $102,398	1,223 $284	2%	692 (n/a)	Le278,363 $64,736
6	Sandor Est. 09/2010	531 (62%)	Le546,133 $127,007	1,028 $239	5%	394 (50%)	Le309,135 $71,892
7	Pendembu Est. 2010	1270 (21%)	Le922,883 $214,623	1,661 $386	8%	645 (n/a)	Le586,739 $136,450

31. The data on active borrowers and savers shows a more balanced service delivery across gender lines. Available data on female active borrowers ranged between 21% and 62% whilst female active savers were between 35% and 56%. The PAR>30 days for the pilot CBs established by BOSL are very high (11%, 12% 16% and 65% of their gross loan portfolios) and this underscores why they had to be restructured. The PaR> 30 days for RFCIP CBs was between 2% and 8%.

32. Another innovative financial institution that was introduced into Sierra Leone, and has been accepted by rural people, as shown by their patronage, is the Financial Service Associations (FSAs). These are group based savings and loans associations which enable group members to pull their savings together and lend to themselves in turn. IFAD, in collaboration with the MAFFS have established a total of 48 FSAs within 5 years at time of mission. Arrangements are in place to establish 17 more to raise the total number to 65 FSAs by end 2014, thereby bring financial services to all Chiefdoms in Sierra Leone. The results to date are encouraging, as depicted by the statistics[19] below.

	No. of FSAs	**No. of Shares**	**Share Capital**		**Loan Portfolio**		**Net Ave. Savings**	
DISTRICT			Le'000	USD	Le'000	USD	Le'000	USD
Kenema	8	8,053	1,064,729	247,611	1,378,970	320,691	106,047	24,662
Kailahun	9	11,291	843,915	196,259	1,064,007	247,443	167,055	38,850
Koinadugu	7	4391	413,180	96,088	518,741	120,637	76,008	17,676

33. The results of the 3 Districts reflect the general pattern of business that the FSAs are engaged in. The FSAs have demonstrated that there is demand for savings products in the rural areas. This however, comes up against regulatory restrictions, since they are not deposit taking institutions. The item reported as savings represent cash that group members have deposited with their FSAs for safe keeping because the FSAs have the facilities for this service. This is also an illustration of confidence that is building in the FSAs. It calls for innovative ideas on how

[19] Source: Technical Assistance Agency

put in place risk mitigating factors and bring these savings into the formal system. The alternative for the rural people is to keep their money at home under more risky conditions.

34. The establishment of CBs and FSAs has stimulated financial service activities in the rural areas without which those places would have remained deprived of financial intermediaries. The CBs and FSAs have between them for now 61 institutions (48 FSAs + 13 CBs) and it is envisaged that in the next 2 years the number will reach 87 (22CBs + 65 FSAs) which equals the present total number of commercial bank offices in Sierra Leone. More importantly, all these institutions are owned by the local people and operate in the rural areas.

35. **Moneylenders and Osusus.** Most rural areas have a moneylender who is well known in the local villages. These actors will make loans at short notice and without any lengthy bureaucratic procedures, and as such provide a service in their communities. The loans, though, are extremely expensive with interest rates often as high as 25% a month flat, frequently demand physical collateral, and can involve unpleasant methods of collecting repayments. The ease of access and the speed of disbursement, though, do represent a level of service that other rural lenders will need to match. While no data seems to exist on their activities, their usage is very widespread.

36. Osusus exist in many villages in the countryside. They are informal groups that meet on an irregular basis, whereby those villagers who have surplus funds and those looking to borrow come together and in front of the group strike the terms and conditions for a loan. These terms may, or may not, involve the payment of interest. If, on the due date of repayment, the borrower defaults on the loan, the group has the right to go to the borrower’s house and take sufficient assets to cover the loan and give them to the lender. Normally this right only has to be exercised only once or twice to guarantee a nearly 100% loan repayment rate on subsequent loans. The major shortcoming of this approach is that no osusu member may have any funds available to lend, and usually the maturity of the loans is short. Although the practice of osusus is wide-spread, no data exists on their activities.

37. **Regulation, Supervision and the Policy Environment.** The BoSL has the regulatory and supervisory responsibilities over the financial system and draws its mandate from the Banking Act 2000. As the banking industry grows in terms of number of institutions the BOSL would be challenged to improve its capacity for its oversight role. Within a space of less than 10 years, 56 new rural finance institutions have been added and in addition the microfinance institutions are also growing. The capacity shortfalls that need to be rectified include the hiring and training of more professionals, and the need to acquire the necessary equipment and vehicles. The need for capacity building has been taken into consideration in both the Financial Sector Development Plan (FSDP).

38. Under RFCIP, the Technical Assistance Agency (TAA) was established to provide some management and technical services to CBs and FSAs, including audit and inspection functions. This has gone a long way in providing oversight over them and guiding them to their present level of performance. The proposal to convert the TAA into an Apex Bank seems to be receiving favourable consideration from the BOSL. If the concept is implemented, the role of the APEX would enhance the supervision of CBs and FSAs and complement the BoSL.

39. The BoSL has in place rural banking policies, and has been collaborating with development partners to make financial services accessible to rural communities. The most important of these, the Banking Act (2000)and the Other Financial Services Act (2001), have provisions for licensing financial institutions that can operate in the rural areas.

40. Against this background, the BoSL published the Financial Sector Development Plan 2009, which includes provisions on access to financial services. One of the key objectives of the Financial Sector Development Plan stipulates as follows: ‘To increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks’. In line with this objective, the BOSL has

been collaborating with some stakeholders under MITAF I to promote the growth of the microfinance sector to make financial services accessible to the marginalized. Furthermore, the GOSL and the BOSL have been working with IFAD and other development partners to extend the frontiers of financial services to rural areas. One such initiative is the RFCIP1 programme, under which CBs and FSAs have been established and are operating in very remote rural areas.

41. The BoSL has taken a further step by declaring its willingness to consider licensing the TAA into an Apex bank, and will cooperate regarding the supervision of the CBs. The policy environment is therefore, favourable for extending access to finance in rural areas.

42. In conclusion, considerable progress has been made to bring financial services to the rural districts of Sierra Leone. It is unrealistic, though, to expect the commercial banking sector to play a significant role in this outreach within the near future, whilst the advent of the FSAs and the CBs, though, have shown that they have considerable promise. With strong technical support, the provision of trained staff, and some capitalisation they could be in a position to fill the gap in the provision of financial services that currently exists in rural areas.

Appendix 1.1: Country Data Sheet – Sierra Leone

COUNTRY DATA

Sierra Leone

Land area (km2 thousand) 2009 1/	72
Total population (million) 2009 1/	5.70
Population density (people per km2) 2009 1/	80
Local currency Leone (SLL)	

GNI per capita (USD) 2009 1/	340
GDP per capita growth (annual %) 2008 1/	3
Inflation, consumer prices (annual %) 2009 1/	9
Exchange rate: USD 1 = SLL 4310	

Social Indicators	
Population growth (annual %) 2009 1/	2
Crude birth rate (per thousand people) 2009 1/	40
Crude death rate (per thousand people) 2009 1/	15
Infant mortality rate (per thousand live births) 2009 1/	123
Life expectancy at birth (years) 2009 1/	48
Total labour force (million) 2009 1/	2.14
Female labour force as % of total 2009 1/	51
Education	
School enrolment, primary (% gross) 2009 1/	112
Adult illiteracy rate (% age 15 and above) 2009 1/	59
Nutrition	
Daily calorie supply per capita	n/a
Malnutrition prevalence, height for age (% of children under 5) 2008 1/	37
Malnutrition prevalence, weight for age (% of children under 5) 2008 1/	21
Health	
Health expenditure, total (as % of GDP) 2009 1/	13.1
Physicians (per thousand people) 2008 1/	0
Population using improved water sources (%) 2008 1/	49
Population using adequate sanitation facilities (%) 2008 1/	13
Agriculture and Food	
Food imports (% of merchandise imports) 2009 1/	n/a
Fertilizer consumption (kilograms per ha of arable land) 2008 1/	n/a
Food production index (1999-01=100) 2009 1/	201
Cereal yield (kg per ha) 2009 1/	989
Land Use	
Arable land as % of land area 2008 1/	25
Forest area as % of total land area 2006 1/	38.2
Agricultural irrigated land as % of total agric. land 2008 1/	n/a

Economic Indicators	
GDP (USD million) 2009 1/	1 942
GDP growth (annual %) 1/	
2000	3.8
2009	4
Sectoral distribution of GDP 2009 1/	
% agriculture	51
% industry	22
% manufacturing	n/a
% services	27
Consumption 2009 1/	
General government final consumption expenditure (as % of GDP)	14
Household final consumption expenditure, etc. (as % of GDP)	84
Gross domestic savings (as % of GDP)	2
Balance of Payments (USD million)	
Merchandise exports 2009 1/	231
Merchandise imports 2009 1/	520
Balance of merchandise trade	-290
Current account balances (USD million)	
before official transfers 2009 1/	-344
after official transfers 2009 1/	-193
Foreign direct investment, net 2009 1/	74
Government Finance	
Cash surplus/deficit (as % of GDP) 2009 1/	-3
Total expense (% of GDP) a/ 2009 1/	23
Present value of external debt (as % of GNI) 2009 1/	20
Total debt service (% of GNI) 2009 1/	0
Lending interest rate (%) 2009 1/	n/a
Deposit interest rate (%) 2009 1/	13

a/ Indicator replaces "Total expenditure" used previously.

1/ World Bank, *World Development Indicators* database CD ROM 2011-2012

Appendix 2: Poverty, targeting and gender

Overview of the country socio-economic situation and poverty

1. Sierra Leone is a least developed country that has been classified 180 out of 187 countries by the United Nations Development Programme (UNDP)'s Human Development Report (HDR) on the human development index. It qualified for the Debt Initiative for Heavily Indebted Poor Countries and meets criteria established by the Food and Agriculture Organization of the United Nations (FAO) for classification as a low-income food deficit country. In 2002, Sierra Leone emerged from an eight-year civil war that displaced over two million people, about 500 000 of which fled to neighbouring countries, including skilled professionals. Most of the country's infrastructure, especially in rural areas, has been destroyed or severely damaged. Community-based and social institutions have been left weak. However, since the end of the war, significant progress has been made in building democratic institutions at the central and decentralized levels, developing policies and strategies for all strategically important sectors, stabilizing its macroeconomic situation, fighting corruption, and allocating financial resources to priority sectors such as power and agriculture.

2. **Rural poverty**. Rural poverty in Sierra Leone remains widespread and intense. According to the HDR 2011, 53.2 percent of the population lives in severe poverty and 66.4 percent under the national poverty line. A recent survey from the World Food Programme (WFP) showed that almost half (45 percent) of households or 2.5 million people are classified as food insecure during the lean season. Of those, about 6.5% percent are severely food insecure. Quick growing rice varieties such as 3 or 4 month rice, some upland varieties that mature within five months and cassava provide essential hunger breakers.[20]

3. There is widespread regional disparity in the incidence of poverty: rural areas and the Eastern part of the country are those most severely affected. In addition to food insufficiency, rural poverty is characterized by poor housing, limited access to health services and clean water, high infant and maternal mortality rates, high illiteracy, and very low incomes. According to the HDR 2011, 37.4 percent of children under the age of 5 are stunted and 21.3 percent wasted.

4. Poverty is directly linked to the problems faced by agricultural production and commercialization. Smallholder farmers, are among the poorest in the country. Main constraints faced by the farmers include limited access to inputs (including good quality seeds), limited investments in rural productive infrastructure (rice mills, feed mills, processing facilities, rural roads, markets, irrigation systems, transportation infrastructure), scarce extension services and training due to lack of skilled people (which is likely to worsen in 3-5 years when currently employed professionals retire), lack of storage facilities resulting in high rates of post-harvest losses, and poor access to market due to many of the issues above. Other factors determining poverty and food insecurity include low purchasing power of rural communities, poor overall macroeconomic conditions in the country, lack of diversification of farming systems, distress sales at harvest time to generate cash to pay debts, and the high costs of food during the "hungry season", typically between July and September.

5. **National rural poverty reduction programmes**. Within the framework of its Agenda for Change, in September 2009, Sierra Leone launched its second generation poverty reduction programme, the 2010-2030 NSADP, which was developed as part of the CAADP. The plan aims to make agriculture the engine of socio-economic growth and rural development. The objectives and targets of NSADP are as follows: (i) increase the agricultural sector growth from current 4 percent to 7.7 percent per annum by 2015; and (ii) increase incomes of farming households by 10 percent and increased household food security by 25 percent. In order to achieve these

[20] P. Nenova-Knight and C. Bilski, *Gender in Agriculture: A Rights-Based Approach to Food Security and Sustainable Livelihoods - Situational Analysis and Recommendations Grounded in Participatory Learning and Action in Kono and Kailahun Districts, Sierra Leone*; February 2011

targets, MAFFS focuses on fostering agricultural productivity, promoting commercial agriculture through private sector, and improving research and extension services. The Government implemented the NSADP throughout the country, prioritizing the Smallholder Commercialization Programme (SCP), which is seen as having the potential to achieve the greatest impact in terms of improved food security and income generation for the most vulnerable groups in the short and medium term. The SCP focuses on the intensification, diversification and commercialization of smallholder agriculture and works in synergy with government- and donor-funded projects and programmes under implementation in the country. MAFFS developed a USD403 million National Agricultural Investment Plan (NAIP) for the implementation of the SCP during 2010-2014, which focuses on improving smallholder production and commercialisation through by (i) setting up farmer-based organizations (FBOs) and building Agricultural Business Centres (ABC); (ii) developing small scale irrigation to boost rice production; (iii) creating new Financial Services Associations (FSA) to enhance access to rural financial services to farmer groups or individuals; (iv) improving access to markets by rehabilitating and maintaining 4 feeder roads; (v) providing a social protection safety net to vulnerable households. All ongoing and future Government and donor-funded projects and programmes in the smallholder agricultural sector will be aligned with the NAIP.

6. In June 2010, the Global Agriculture and Food Security Program (GAFSP) – a multidonor financing facility – approved a USD 50.0 million proposal presented by the Government of Sierra Leone in support of SCP component 1 (smallholder agricultural commercialization: production intensification, diversification, value addition and marketing), component 2 (small-scale irrigation development) and component 6 (SCP planning, coordination, monitoring and evaluation).

7. **Gender issues and socio-economic status of women.** Women play an active role in the country's economy and in the agricultural sector. According to the UN's World's Women Report (2010), women constitute 65 percent of the adult labour force in Sierra Leone, with 71 percent being employed in agriculture. Still, most of them lack access to meaningful employment opportunities and education, continue to suffer from gender inequalities, and are hardest affected by poverty.

8. Sierra Leone is ranked 137 out of 146 on the gender inequality index. Maternal mortality is among the highest – 970 each 100,000 live births. Gender inequalities are evident in literacy levels: 29 percent of women *vis à vis* 52 percent of men, with only 9.5 percent of women having at least secondary education versus 20.4 percent of men.

9. According to the Sierra Leone Integrated Household Survey (SLIHS) (2005), female-headed households - whether *de jure* headed by widows or *de facto* female headed, i.e. households that are headed by men, who might have left their spouse for work in the diamond mines or in town - are in general poorer than male-headed households. The WFP's Sierra Leone Vulnerability Analysis and Mapping Report (2008) also indicates that female-headed households suffer greater food insecurity. However, evidence from field work conducted by NPCU in the context of implementation of IFAD-supported projects shows that on the contrary female headed households are actually often in a better position as women have more control over resources and decision making. Access to land remains a major problem for rural women in the country. Husbands or other male relatives are those giving permission to women to cultivate land of her own. In Sierra Leone, the patrilineal inheritance system means that land and property pass through males. Therefore, women have no right to inherit land as all properties under customary law goes to male relatives of the deceased, usually the eldest brother or a mature male child. Women can only inherit land in the absence of an adult male member in the family. However, the abundance of cultivable land in Sierra Leone makes application of land use systems more flexible and women, including widows, can acquire access (but no control over) land.

10. **Gender-based division of labour**. According to field evidence,[21] both rice and cassava are grown by men and women. It is women who typically manage and work on the cassava gardens, after men have carried out the initial land preparation for planting. Women also typically harvest the cassava and most importantly they process cassava into *gari* (pounded and dry-roasted) and *fu-fu* (fermented and pounded). Men typically manage the sole-cropped rice farming and tree crop plantations for cash income. Farms typically managed by women also include the upland mixed-cropped rice farms, which are characterized by inter-cropping systems that aim to protect the household against crop failure, and vegetable gardens, which provide micro-nutrients, vitamins, minerals, fibre, and slow-release carbohydrates. It is generally the women who carry the expenditures associated with the hunger gap, such as school fees and medical costs. This makes them prone to entering exploitative debt relationships and being subject to labour exploitation. Traditionally, women are also the primary care-givers in the household. Domestic and farm work mean that there is little leisure time for women or opportunity for their participation in political processes, community activities and training.

11. **Women's access to rural financial services**. The 1991 Constitution guarantees equal access to both women and men to financial credit. Field work, however, showed that in Koidu Town, Kono district, some women were refused loans from commercial banks as they lacked the collateral.[22] Women are more likely to lack the ability to present their business plans, be unaware of banks' administrative processes and fall into the trap of moneylenders.

12. Recent data from the IFAD-supported FSAs shows greater numbers of male shareholders (60 percent) than female (40 percent). The overall number of loan clients is more equitable in terms of gender, with 53 percent male loan clients and 47 percent female. However, according to recent findings from the field,[23] women may take smaller loans than men and, most importantly, they may not have control over the money in a situation where their decision-making power is limited within the household. A table providing details on the number of shareholders and borrowers by gender and age in operational districts covered by RFCIP is included in Appendix 2.1.

13. Field work showed that in general staff of the FSAs do not have any bias against women. However, in some cases, staff perceived that women need the authorization of their husbands to apply for loans and request men's signature for that. Women proved to be among the best clients, with a better repayment record than men and a strong grasp of the savings mechanisms. In most cases, female clients of FSAs are petty traders or employers earning wages (e.g. teachers). A number of women are still reluctant to borrow as they believe it is 'men's business' or face objections from their husbands. Especially poor women think that they lack the money required or are too busy on their farms to attend meetings. However, women expressed a strong interest in microfinance, including widows.

Geographical targeting and target group, including gender issues

14. **Target area**. The RFCIP2 will be a nation-wide programme, covering all districts in Sierra Leone (13 districts, including rural areas of the Western District, outside Freetown). Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the ongoing IFAD-supported operations, namely RFCIP, RCPRP and SCP-GAFSP, to build on what has already been achieved and to maximise impact, e.g. in targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

[21] P. Nenova-Knight and C. Bilski, 2011**.**
[22] P. Nenova-Knight and C. Bilski, 2011**.**
[23] *Ibidem*

15. **Target group**. The target group would comprise poor rural people, with a focus on those displaying a willingness and commitment towards adopting business-oriented principles; this further implies that the target group would be the economically active poor. This group would include those belonging to the following categories: (i) farmers (smallholders and medium-sized); and (ii) micro- and small-scale entrepreneurs. Special attention will be given to rural women and youth, using proven models and approaches tested under the RFCIP.

16. **Targeting strategy**. As part of the core targeting strategy, ensuring pro-poor and farmer-friendly financial products will be emphasized. The strategy is one of *access*; thus the project has been conceived on the basis of: i) geographical proximity to the target group; and ii) adapted products. The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger 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” due to lack of funds. In general the project also aims to encourage a rural financial environment with (i) better adapted terms (e.g. repayment period – today, reimbursement commences after one month); and (ii) lower interest rates that remain market-driven, though will also be in line with national policy.

17. Assuming that each FSA and CB will be able to substantially extend its outreach to the community, the RFCIP2 will reach some 285,000 rural households during its 9 year span. Of these, 60% will be the poor and marginalized, with special efforts made to tailor financial products to meet their needs.

18. The target groups are described more specifically below:

19. **Smallholder farmers**. They cultivate between 1 and 3 hectares of land and can experience periods of hunger and food insecurity. They lack access to inputs and support services; profitable investment opportunities, and funds to increase soil fertility and yields. Generally they borrow from friends and neighbours as they do not mostly have access to financial services, except a few community banks, MFIs and the informal sector arrangements, while commercial banks are not interested to serve rural areas, where lending is not profitable. They would need short and medium-term loans for annual farming and investments in technology.

20. **Micro- and small-scale entrepreneurs**. This target group generally engages in petty trade activities, which are mainly based on agriculture, including crop and livestock production, processing, marketing. Most of them are women. This target group faces a number of challenges such as lack of funds to acquire tools and machinery and for working capital; lack of access to formal and financial services; lack of appropriate technology for rural food processing; and lack of entrepreneurship skills. They generally borrow from friends and neighbours and use traditional manual but unhygienic processing modalities. Short-and medium-term loans for working capital requirements, tools and machinery would be appropriate instruments to overcome their challenges. Financial products that also serve the needs of of micro-entrepreneurs that require larger loan sizes with longer repayment periods would also be needed. Other priorities for this target group are training in financial management, simple business plans, loan procedures and business development and management.

21. **Rural youth**. Almost 35 percent of the population in Sierra Leone is considered to be belonging to the youth class (15-35 years of age). During the war, youth have been exposed to more trauma and experience of power abuse than ever before. As a result, they are now more politically aware and carry greater expectations for involvement in decision-making and desire for economic opportunity than ever before. The Programme would establish linkages with the ongoing RCPRP and SCP-GAFSP to review how to expand rural financial services to the youth; either on an individual or group basis, in order to enable them to engage in and benefit more from economic opportunities.

22. **Women farmers and small entrepreneurs, including women heads of households.** Women, especially female heads of households, face both poverty and social exclusion. They

suffer from lack of funds for trading, food processing and other micro enterprise activities; lack of access to formal financial services; insufficient collateral for bank loans; lack of extension services adapted to their farming activities; limited participation in farmers' groups and community structures; and exclusion from decision–making. They would need short-term loans for trading, food processing and other businesses; flexible repayment schedules in order to benefit from price increases; knowledge on financial management and loan applications; access to extension services; support for group formation and building to mobilize savings and access credit; and enhanced participation in management, decision-making and the community development planning process.

Gender mainstreaming, women's empowerment, social inclusion and targeting strategy

23. The Project will support gender mainstreaming, empowerment of women, and specific targeting measures of youth, to ensure maximum participation of these vulnerable groups in various activities. In particular, the Project will implement the following measures and activities:

24. **Mainstreaming gender with GALS**. The Gender Action Learning System (GALS) will be adopted as the primary strategy to mainstream gender in project interventions. GALS has been successfully implemented in Uganda and has been piloted under RCPRP (see Appendix 3 for further details). It is an empowering process which helps to increase participation at all levels, working with men, women and the poorest community members, addressing gender inequalities and imbalances within the household as a whole. There is an even more compelling rationale to work through GALS for implementation of RFCIP II: enhancing access to rural financial services for women may increase the risk of raising conflict within the household. The GALS tools will be used to promote household financial planning and savings, and more equitable decision-making. Tracking and planning incomes, expenditures and use of resources is particularly important for the poorest households in order to cope during the long 'hunger-gap'. Experience with GALS elsewhere has found that household planning can double household income available for nutrition, health and education as well as investment in production. It thereby enables people to better cope with risks and crises. GALS will help to ensure that women's contribution to increased household income actually benefits them, which cannot be assured as, for example, there is evidence that men may withdraw household support where they see an increase in women's incomes. The GALS 'Poverty Diamond' tool will be used to help identify and target the most poor community members, by gender, as well as provide baseline information for categorisation of poverty.

25. **Ensuring pro-poor and farmer-friendly financial products.** The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger pro-poor focus and better outreach of farmers.

26. **Developing women/youth-friendly financial products**. Targeted products will be developed for women and youth for CBs and FSAs, tailored to the specific needs of these target groups.

27. **Ensuring gender balance in bank staff and board**. Female loan officers will be targeted through the provision of training on motorbike riding where required to overcome gender-based constraints in this area. FSA boards must have at least 1 woman out of the 3 members. In collaboration with TAA, boards appoint a manager and cashier, at least one of whom must be a woman. Especially for new FSAs/CBs, qualified women, including youth, will be prioritized during the recruitment process provided they have the relevant skills for the positions to be fulfilled. Gender sensitive language will be used in describing staff positions (she/he, etc.). Gender awareness will be included in job descriptions/advertisements and as key criterion for recruitment.

28. **Targeting beneficiaries of on-going IFAD projects**. In order to enhance linkages with the on-going projects, particularly agricultural activities, RFCIP2 will make sure that farmers supported under RCPRP and SCP-GAFSP for agricultural activities and/or members of farmer organizations/IVS (particularly women and youth) will be targeted to become clients of FSAs

and CBs. A full package of well-sequenced services will be provided to them to ensure proper use of financial services and enhance the outcome of supported interventions by IFAD projects: i) support to develop feasible business and financial management plans to access loan facility of the FSAs and CBs; ii) Targeted training for micro-enterprises/income generating activities proposed in the plans; and, iii) support in the implementation of the activities, including linking with the private sector. The APEX and FSA/CB staff will also be trained in GALS.

29. **Creating a women-friendly environment to facilitate women's participation**. Equitable participation and access for women and female youth will be ensured for all training programmes, for example by providing child care/a child friendly environment, considering the location and timing of the training, as well as paying attention to numeracy and literacy issues. Sensitisation on gender and youth issues will be incorporated in training at all levels.

30. **Providing literacy and numeracy training for women and youth saving/borrowing groups**. Training in adult functional literacy and numeracy will be provided to one woman and one youth per savings/borrowers group. It is expected that the woman/ youth will then train the other group members. At least 50 percent of the trainees will be young women.

31. **Ensuring outreach of poor and women in communication/sensitization campaigns**. The communications and sensitisation Strategy will ensure continuous advertisement and sensitization of the products and services with a focus on outreach to poor rural people, including women and youth. Feedback will be received from the communities, for example through radio discussions. The strategy will also include particular attention to gender equality and women's empowerment, for example case studies of success stories for women in rural finance. The strategy will be monitored and reviewed as required to ensure information is reaching women at all levels, particularly considering the issue of local languages. Community sensitization will be conducted in association with existing women and youth organizations as well as GALS community facilitators, ensuring that women and female youth constitute half of the members in community meetings as well as providing an environment for them to freely express their specific concerns and perspectives.

32. **Gender in TORs and staff evaluations**. The M&E/Gender and Targeting staff will continue to work at the NPCU and will be responsible for gender mainstreaming and poverty targeting across project components and activities, as currently done under the on-going projects. Gender and targeting aspects will also be mainstreamed into terms of reference of staff at all levels and incorporated in the Staff Performance Evaluation System (PES). Staff will be evaluated by the gender focal point/task force, composed of the Human Resources Officer and M&E/Gender & Targeting Unit.

33. **Gender-disaggregated M&E**. The M&E system will ensure gender, youth and socio-economic disaggregation of data to ensure that the target population is reached. Outcome and impact monitoring will include gender and targeting analysis, and indicators will be developed to capture the impact on target groups' incomes and livelihoods. Gender and youth sensitive indicators will be complemented by the Gender Action Learning System (GALS) process, which generates indicators and provides baseline information including gender and poverty aspects.

Implementation arrangements

34. The M&E/Gender and Targeting team will mainstream gender in all project activities, with a pro-poor focus. Budget for the M&E/Gender and Targeting staff will be allocated starting from 2015, as until then the costs will be covered by other on-going projects. Activities will be implemented in collaboration with the Rural Finance team and the component coordinators. The GALS approach for rural finance will be developed by the M&E/Gender and Targeting and Decentralisation Units of NPCU with initial support from an international GALS practitioner. GALS will be piloted in each district covered by RCPRP and integrated into on-going project activities (rather than being a one-off/extra activity). Manuals will be developed to adapt the GALS tools to the specific context of rural finance. District-based service providers with

experience in gender and participatory approaches will be trained in GALS to support the up-scaling process and provide follow up for backstopping.

Appendix 2.1: Shareholders and borrowers by gender and age in operational districts covered by RFCIP

District	Chiefdom	No. Of Groups	No. Of Shareholder	No. Male Adult	No. Female Adult	No. Male Youth	No. Female Youth	Minor(Child)	% Of Women As Shareholder	Active Loan Client	Male Adult	Female Adult	Male Youth	Female Youth	% Of Women As Loan Client
KENEMA	Gaura	157	1441	601	232	251	215	142	31%	402	173	63	91	75	34%
	Niawa	55	851	320	190	157	152	32	40%	145	52	26	35	32	40%
	Dama	127	1350	662	323	195	138	32	34%	224	104	100	10	10	49%
	Kandu-leppiama	64	622	238	143	81	109	51	41%	87	17	22	36	12	39%
	Tunkia	60	823	387	156	186	77	17	28%	91	36	32	11	12	48%
	Nongoawa	70	971	442	186	159	177	7	37%	107	42	28	12	25	50%
	Lower bambara	65	607	209	86	199	68	45	25%	108	20	35	25	28	58%
	Wandor	16	681	225	108	223	80	45	28%	101	40	15	15	31	46%
KONO	Nimiyama	114	1158	363	290	204	269	32	48%	291	95	60	60	76	47%
	Nimikoro	130	1371	419	539	154	218	41	55%	339	156	47	47	89	40%
	Faima	138	1245	346	237	296	334	32	46%	201	58	41	41	61	51%
	Goromakono	67	831	309	150	171	125	76	33%	79	26	18	18	17	44%
	Sandor	60	722	259	130	128	133	72	36%	113	33	17	17	46	56%
	Lei	83	671	201	147	173	147	3	44%	118	46	26	26	20	39%
	Soa	49	750	179	82	272	191	26	36%	97	14	32	32	19	53%
	Gbaneh	74	913	351	235	143	159	25	43%	100	33	23	23	21	44%
KAILAHUN	Yawei	64	735	223	141	143	220	8	49%	74	16	24	24	10	46%
	Malema	102	880	323	171	140	208	38	43%	117	29	22	22	44	56%
	Peje bongre	75	783	209	122	219	211	22	43%	100	11	26	26	37	63%
	Jawie	152	1546	492	362	342	312	38	44%	189	67	35	35	52	46%
	Luawa	157	1326	356	250	322	340	58	44%	158	29	40	40	49	56%
	Mandu	103	1185	475	222	265	197	26	35%	145	25	48	48	24	50%
	P/west	173	1962	529	416	332	637	48	54%	329	99	64	64	102	50%

	Kissy teng	150	1300	349	361	269	293	28	50%	262	129	35	35	63	37%
	Kissy kama	74	911	267	198	202	193	51	43%	153	35	39	39	40	52%
	Bum	8	397	204	65	79	46	3	28%	24	11	4	4	5	38%
	Kpanda-kemo	3	232	119	69	22	18	4	38%	9	3	3	3	0	33%
	Sowa	11	248	120	57	30	40	1	39%	20	8	3	3	6	45%
	Garrinesperri	9	729	346	197	120	52	14	34%	16	4	5	5	2	44%
KOINADUGU	Sengbe	209	1,021	254	270	184	292	21	55%	550	144	202	55	149	64%
	Diang	23	419	116	65	120	105	13	41%	119	25	27	34	33	50%
	Kasunko	25	292	96	71	64	59	2	45%	86	28	33	11	14	55%
	Nieni	21	638	243	103	153	116	23	34%	40	18	9	8	3	30%
	Folosaba Dembeli	42	600	186	133	123	137	21	45%	80	17	23	14	23	58%
	D/Sinkuni	135	621	207	149	97	135	8	46%	124	38	31	20	35	53%
	Wara Wara Bafodia	20	440	186	77	107	49	21	29%	81	39	9	21	12	26%

Appendix 2.2: GALS – what is it about and the experience with IFAD projects in Sierra Leone

The GALS methodology is being developed in IFAD-supported projects in countries including Uganda, Nigeria and Rwanda[24]. Based on the findings of action research and participatory learning conducted in Sierra Leone under an IFAD/FAO Grant Programme, GALS was successfully piloted under the Rehabilitation and Community-based Poverty Reduction Project (RCPRP) with a focus on value chain development for Inland Valley Swamp Associations. In all projects GALS was found to bring about rapid changes, both economic and personal, due to the serious negative impact of gender based constraints on agricultural development, and development more broadly.

GALS Experience to Date

Under RCPRP, the GALS for Value Chain Development was launched in Kenema District in August 2011. This is a 2-year staged process of integration for sustainability, starting slowly and adapting at the community level, with the on-going action learning and peer training at community level as well as integration of GALS in activities and structures of partners.

The process to date has led to the following outputs: (i) district level GALS event for learning and exchange with communities and other stakeholders including the district Council and Ministry of Agriculture; ii) training of four generations of community facilitators as well as project and government staff, service providers and Implementing Partners; (iii) development of action plans and guidelines for the testing of GALS stage 1 and 2 tools on two selected IVS communities, including plans for peer training; (iv) launching of a district level female leadership programme; (v) launching of a staff capacity building programme in gender and participatory methods; (vi) participation of project staff and community facilitators in knowledge exchange and learning GALS events in Nigeria and Uganda.

The GALS methodology is integrated into on-going project activities with the support of 'GALS Coordinators' for follow-up and supervision. GALS Coordinators are comprised of staff from the PCU M&E/Gender and Targeting and Decentralisation Units, under the overall supervision/coordination of the PCU Technical Assistant for Gender and Targeting. An international GALS practitioner[25] provides backstopping and technical support to develop the strategy, and to facilitate the initial steps of each stage to ensure quality control.

GALS Findings and Achievements

Overall, the GALS process has generated competences, commitment and enthusiasm among the different people involved. The process to date has demonstrated that the GALS has been remarkably powerful in shifting gender norms and relations in a positive manner for both men and women. Community facilitators shared stories of real changes in their lives, including increased collaboration within the household, for example increased male participation in household tasks such as childcare, and increased male participation and male-female collaboration in farming tasks, leading to increased production and income with less need to borrow money to pay for school fees. There were also reports of increased sharing of family income and decreased arguments over income and expenditure, with less unplanned expenditures such as alcohol consumption and gambling once both men and women realised the strain this places on household funds. Women also reported increased decision-making within the household. Through use of the tools, participants demonstrated the capacity to identify the resources they need to improve their lives, thereby indicating the sustainability of actions generated through GALS.

By doing the GALS testing, the programme had the opportunity to do a social stratification of poverty including aspects that are more relevant to either female or male youths, women or men. This will

[24] In Uganda under an IFAD small grant from July 2009-July 2011, and under an IFAD large grant in Uganda, Nigeria and Rwanda from 2011. In Uganda the basic GALS (stages 1 and 2) has been piloted by at least 3000 women and men in communities with 5 CSO partners, and the methodology has reached around 18,000 people in communities in Uganda, and around 75,000 globally.

[25] Located through the existing international GALS network.

help the programme to respond to the specific needs of target groups, as well as help people to plan and implement actions to overcome their own challenges based on the selected indicators.

The potential of GALS as an advocacy tool was also experienced by the way women debated with men about their rights during the district level GALS event as well as during the training of trainers. The facilitators also gained from increased networking among one another, and new collaboration has fruited as a result of the workshops.

Staff Capacity Building Programme in Gender and Participatory Methods

The ongoing staff capacity building programme in gender and participatory methods was launched in August 2011, attended by key staff members from the RCPRP and RFCIP. The programme aims to: i) demonstrate to staff that gender injustice is a key cause of poverty and important to the men and women in the communities where they work; ii) strengthen staff capacity for listening, communication, analytical and participatory skills in order to work better with women and men from poor households, and; iii) gain experience of the GALS methodology and the set of tools used to improve gender relations at the household level as well as addressing gender issues at the programme level.

As part of the programme, staff participated in field visits to the two IVS communities where GALS is being tested. This exposed staff to the analytical tools developed by the IVS members, and enabled them to learn from the community members about the gender issues faced by the men and women involved in the programmes.

GALS Stage 3: Gender mainstreaming in economic interventions.

The focus of stage 3 is community-led value chain development from a gender perspective. The GALS process will move to this stage during the next workshops to be held from June 2012, with a focus on the rice value chain.

Appendix 3: Country performance and lessons learned

Country performance

1. In the 1980s and early 1990s, IFAD funded four agricultural development projects for a total amount of USD 30M. These projects were largely production-oriented and had some degree of impact. However, the difficult situation in the early 1990s – with the downturn in the world economy, structural adjustment programmes and the outbreak of civil conflict – prevented project objectives from being achieved. Any progress made was then rendered obsolete by the war. IFAD interventions resumed in the early 2000's and, under the 2003-2009 COSOP, funded approximately US$20 million for two projects: the Rehabilitation and Community-based Poverty Reduction Project (RCPRP), launched in March 2006, and the grant for the Rural Finance and Community Improvement Programme (RFCIP), effective in May 2008. Initial progress in implementation and in disbursements was slow but, when supervision of activities was moved to IFAD, the whole portfolio was restructured to better respond to the needs of beneficiaries. Direct involvement in policy dialogue was encouraged in order to overcome bottlenecks, permanent field offices in the project districts were set up, stronger implementation support was provided and a new dynamic in the NPCU established. These two projects currently have very good operational results and have been classified as the top performing projects in MAFFS' rankings. Specific implementation issues remaining to be addressed include overall financial management and an improvement of assessment of outcomes and impact of field interventions, rather than emphasis on the output level only.
2. Performance of the country program under the current RB-COSOP (covering the period 2010-2015) was subject to a client survey in mid-2011 and an annual review – as per IFAD standard practice - in late 2011. The client survey reported considerable progress in terms of increased incomes, improved food security, empowerment and harmonization and validated clients' overall belief that IFAD is fully aligned to expected results of national development goals (PRSP) and the CAADP investment plan. This was recognized by international donors to the extent that in 2011 IFAD was selected as supervising entity for the first GAFSP initiative dedicated to the Smallholder Commercialization Program (SCP-GAFSP, effective in May 2011).

Performance of the first phase RFCIP

3. **Financial Services Associations (FSAs)**. The co-financed IFAD and Italian Development Cooperation project introduced the first FSAs into Sierra Leone, adapting the model from the Kenya original. The model has been repeatedly improved upon and replicated/ up scaled under the IFAD-supported RFCIP. FSAs are rural financial institutions providing a range of financial services to their shareholders, who own the institutions. They aim at establishing locally accessible, locally owned and operated financial institutions. Loans to shareholders are financed principally from locally mobilized equity, which constitutes the village banks' risk capital. The loans are guaranteed by the group lending mechanism, or by the bank's knowledge of the individual borrower, deriving from the close relationships and local knowledge held by the FSAs. The loans can be accessed only by shareholders, and the loan size is based on the individual share value (up to 4 times the value of the share).

4. The FSA's establishment process follows several steps: (i) a feasibility study and a start-up business plan; (ii) meetings with district leaders and the community are held to enhance the sensitization of the FSA model; (iii) elections of the Promotional Committee Members (interim Board of Directors) are organized; (iv) recruitment of the manager and the cashier (based on competency and not necessarily from the same catchment area) is undertaken; and (v) the provision of training is provided by the Technical Assistance Agency (TAA). At this stage, members of the local community start buying shares. At present, a total of 36 FSAs are operational under RFCIP and 6 under GAFSP. By end 2015, it is expected that the number of operational FSAs will reach 65.

5. Each FSA share costs approximately USD 1. Once a minimum share capital of around USD 2,000 is accumulated and a minimum number of shareholders are reached, the FSA starts providing all products and services (loans, money transfer, saving facility to its shareholders). Currently fixed asset costs (building, generator, motorbike, computer and printer /photocopier) and general operating costs are covered by financing RFCIP1, though exit strategies will be implemented after operational sustainability is achieved. Of the 36 FSAs that are operational (under RFCIP), 19 have reached operational sustainability, and the exit strategy is expected to kick-in shortly.

6. The strength of the current FSA model is in its business-oriented and results-oriented approach. The sustainability of an FSA relies upon a high degree of professionalism and competency, as well as the close interest shareholders have in the institution, since their own capital is at risk. In addition, a high level of outreach must be linked to market-oriented business plans to ensure a sound loan portfolio is maintained. Despite this however, weaknesses remain; at present and on average, only 30% of FSA members are able to access loans, which detracts from the attractiveness of the institution for members of the community and also limits further membership growth. Unfortunately, for the time being, the situation is mainly an outcome of the limited capital available to the FSAs to on-lend to their members. It is, therefore, critical that in order to continue to meet the needs of the communities, FSAs must have ready access to capital. This need, though, must be balanced against the importance of shareholders maintaining a high degree of ownership in the FSAs.

7. **Community Banks (CBs)**. Currently there are 13 CBs operating as part of the formal financial sector (a further 9 CBs are expected to be operational by end 2014). The first 6 were created between 2003 and 2008 through funding provided by the BOSL. They are located throughout the provincial districts of the country (3 in the Northern provinces, 2 in the Southern provinces and 1 in the Eastern provinces) to stimulate rural communities to rebuild their lives through access to financial services. Whilst the initial model was innovative, the performance of the 6 CBs established by the BOSL was mixed. The CBs inherited problems from inception, including: (i) low management skills; (ii) weak governance capacities; and (iii) high costs.

8. The PAR> 30 days was very high for most of these early CBs (PaR>30 days of 50% and above). This resulted in high loan loss provisions and write-offs due to inexperienced loan officers, and the involvement of Board members and management in loan disbursements (to relatives, etc.). The lack of networking relationships among the CBs also led to an overall absence of best practices in similar institutions. Furthermore, the standalone nature of their operations prevented the CBs from benefiting from economies of scale in terms of internal auditing, training and product development. CBs were also not operating on the basis of business plans, policies and procedures manuals were not developed, communities were not sensitized, and shareholders were unaware of their rights and responsibilities. Finally, the BoSL had a very limited capacity to supervise the CBs.

9. In contrast, the three new CBs created under the RFCIP were established based on a new approach to ensure that they would be more sustainable and cost-effective. This involved the following elements: adoption of a computerized MIS system; the development of policy and procedural documents; extensive staff training; and the adoption of business plans and a yearly budget which are reviewed and approved by the TAA. Furthermore, quarterly budget performance reviews are undertaken to ascertain whether targets are achieved. At present, CBs offer both individual and group loans. These can be for commercial/trading purposes, agricultural production purposes, socio–economic purposes (salary loans), industrial activities purposes and for community activities (purchase of bicycles, motor bikes and mobile phones). They also offer overdraft facilities for schools and commercial clients. The loan size ranges from Le 100.000-200.000 (USD 40-80) to Le 20-40 million (USD 8.000-16.000); loan duration is on average 1-6 months, but for agricultural loans, this can range between 10-12 months depending on the seasonality of the crop. The interest rate is around 2.5%-3.00% flat per

month, but in most cases, agricultural loans are bullet paid with an interest rate of 25% per annum.

10. The improved approach for CBs has now been adopted by the early CBs as part of a rescue plan to improve their performance. Consequently, the average PaR>30 days of these initial CBs has improved substantially to 13% of the total loan portfolio outstanding. In contrast, the PaR>30 days of those CBs established under RFCIP is 3%.

11. **Institutional support to CBs and FSAs**. The **Technical Assistance Agency (TAA)**, established under RFCIP1 and based in Kenema, has been instrumental in providing management and technical support to CBs and FSAs. As it was originally conceived, the TAA, as an institution, was an interim arrangement. It operates on a service-based model (as opposed to a business model) and as a special unit within the National Programme Coordination Unit (NPCU) for IFAD-supported projects. The existing CBs and FSAs are closely monitored by the TAA/NPCU; in addition, the TAA provides audit and supervisory functions on behalf of BOSL, as delegated through an MoU. The role of the TAA is to provide the CBs and FSAs with technical support and oversight over their operations. Human resource functions, training and other services make up other TAA responsibilities. Key performance indicators related to profitability and sustainability of the CBs and FSAs are monitored by the TAA on a regular basis and feed the assessment of their financial performance.

12. The Government of Sierra Leone (GOSL) has clearly identified the FSA and CB models as the spearhead of rural finance in the country. Thus, the MAFFS and the BOSL have sought to replicate the approach of the IFAD-funded RFCIP1. This is evidenced by the inclusion of an access to rural finance component (component 3) in the Smallholder Commercialisation Programme (SCP). Furthermore, under the SCP-GAFSP, the number and outreach of these institutions will continue to be supported. In recognition of the invaluable work of the TAA, the SCP-GAFSP has given the TAA responsibility to implement its rural finance component on a national basis (note that a TAA sub-office will be opened in Makeni, in addition to the office in Kenema). The experiences and lessons learned from implementation of the RFCIP1 is thus the basis for a revised approach, leading to better results. RFCIP2 will, therefore, complement the on-going RFCIP1, SCP-GAFSP and other microfinance initiatives to extend rural financial services on a national scale. This second phase programme has been included in the current COSOP. This highlights the value of strengthening and expanding the rural financial system, particularly in light of the relatively limited impact that the financial system had had on agriculture to date.

Lessons learned

13. The main lesson drawn from the experience of on-going projects in Sierra Leone (RCPRP, RFCIP I, SCP-GAFSP) revolves around the need to: (a) keep the design of new projects as simple as possible, limiting the number of interventions but creating the environment for scaling them up in order to increase impact; (b) encourage increased ownership by communities and full involvement of beneficiaries throughout the design and implementation processes, in order to ensure relevance and sustainability of development activities; (c) reinforce donor coordination at national and district levels; (d) involve the private sector in commodity chains to bring about change in productive capacity at the farm level through support to input supply, production, storage, processing and marketing; (e) promote youth and gender equity by ensuring that targeting is reaching the intended target groups according to established criteria; (f) strengthen both the financial management and the monitoring and evaluation of ongoing projects.

14. Below are a series of lessons learned in terms of specific areas in which either IFAD projects and/or other donors have intervened.

15. **Private sector.** Donor experience in the country has demonstrated that the private sector is highly flexible and has substantial implementing capacities. Interest for public-private partnerships is high among private sector operators but their potential should be encouraged

through efficient implementing arrangements and procedures, including rapid and timely flow of funds, and through improved access to financial services that enable them to invest in their businesses and provide the required services to smallholder farmers.

16. **Implementation of activities through the Ministry of Agriculture, Forestry and Food Security (MAFFS).** All ongoing IFAD projects are implemented through MAFFS. The approach has been fine-tuned during the past few years and has enabled a notable reduction in project start-up lag, high levels AWPB implementation as well as high disbursement rates. This approach includes the adoption of the following elements: (i) the decentralization of staff (district PCU, etc.) and implementation of responsibilities at district level, including the Steering Committees; (ii) the use of national procedures and decentralized services for procurement; (iii) the use of local enterprises and the support to local business development (IVS rehabilitation) at district level; (iv) the support to local employment opportunities based on the ILO's approach; (v) the use of result-based contracts with the implementing entities to ensure the fulfilment of their mandate while monitoring the adequacy of their capacities; and (iv) regular supervision missions including MAFFS, the Ministry of Finance and IFAD to foster communication and information transfer.

17. **Coordination in multi-institutional delivery programs.** Within RFCIP, SCP/GAFSP and RCPRP, several coordination mechanisms have been established to foster synergies between donors and programs at the district level. Support is provided to develop coordination frameworks, organize inter-Agency district forums, undertake stakeholder mapping in the district and set-up databases of organizations and interventions in respective districts.

18. **National Development Bank (NDB).** Capitalization of a revived NDB would need to be structured in a way that while the Government may provide the bulk of the initial capital, it will only hold minority voting rights on the Board without interfering in the day-to-day management of the institution. After the initial years of operation, a divestment plan should be developed so that the Government has minority voting shares after divestment. Lessons learnt from the demise of the old NDB are important in shaping the future capitalization of the revived NDB. The old NDB, was 99% owned by the Government, but it held only one voting share. NDB faced difficulties, in part because of the large loans given to influential people and despite the fact that the Government held only one vote, it had little difficulty in taking over NDB during the civil war. Interestingly, the commercial side of NDBs operations (it had two branches) kept NDB's operations afloat, and in fact subsidized the development arm of its operations.

19. **Rural Finance Institutions (CBs and FSAs).** As demonstrated by results achieved under MITAF and RFCIP, several lessons have been learnt that ensure real access to rural finance through sustainable and financially viable financial institutions (CBs and FSAs) that respond to the local context and needs of the target group. These are:

(a) Institutions must be regarded, and subsequently set up as **viable businesses**; feasibility studies should be undertaken, and business plans developed.

(b) Geographic and financial complementarity between FSAs and CBs must be assessed, especially regarding the products offered.

(c) Quality staffing of CBs/ FSAs is fundamental, through competitive recruitment based on professional criteria, banking experience.

(d) Strong supervision and follow-up support to CBs/FSAs in the initial years is fundamental, including regular yearly audits.

(e) Good performance of the FSA (PaR <5%) is an outcome of the combination of i) the strong professionalism of the staff and ii) the local ownership structure of FSAs/CBs which ensures good knowledge of the local socio-economic context, environment and client base.

(f) Ownership of FSAs and CBs are held with local communities who are shareholders, members of the Board of Directors and leaders of the Credit Committee; this ensures their active participation in the good management of community finances.

(g) Capitalization of CBs and FSAs is key to ensure that: i) all shareholders can benefit from the institution in which they invest in; and ii) financial needs of the rural population (agriculture, petty trade, etc.) can be met by these same institutions.

(h) Agricultural financing requires specific terms – duration, repayment conditions, grace period, etc. – in order to respond to the specificity of agricultural activities.

(i) CBs and FSAs need quality common services (audit, specie movements, training, IT support, human resources management support) at affordable cost.

(j) Apex body needs to be initiated by mature grassroots institutions that have a clear vision and understanding of the advantages/disadvantages and cost of entering in a federated organisation.

(k) Guaranteeing client investment requires adherence with BoSL regulation which is obtained through i) minimum capital-requirement as deposit guarantee; and ii) regular supervision reporting (provided by the TAA).

20. **Pilot Refinance Facility (RFF)**. Whilst the demand for agricultural financing is growing, the reality of supplying the financing and loan products (by CBs and FSAs) is constrained mainly be the limited capital available to effectively extend the outreach for loan provision to clients, and agricultural loans in particular. To this end, the RFCIP has sought to pilot: i) a Refinance Facility Fund (RFF) to the tune of US$ 100,000 administered by the TAA; and ii) a Refinance Facility in the amount of US$ 1,000,000 administered by the BOSL for on-lending by CBs and FSAs. Given the high level of demand for credit, the provision of a refinancing facility piloted under RFCIP has been instrumental in extending the number of loan beneficiaries. In total, 27 FSAs participated in the pilot managed by the TAA, with a PaR> 30 days of 0% and only one default to date; demand for loans was substantial, with applications received totalling seven times the amount of total loans disbursed[26]. Whilst FSAs availed themselves of this facility, they did indicate that they have a preference for more flexible repayment terms and schedules. An important lesson demonstrated by the excellent PaR, is that there is need for: i) a strong and accountable management of the FSA, and ii) flexibility to re-negotiate/ restructure the RFF loan and payment terms to ensure good repayment on the RFF.

21. With respect to the RFF administered by the BOSL, the BOSL recognized that there was a conflict of interest in the provision of the facility to CBs/FSAs and in its mandate to supervise these same institutions. In addition, with the lengthier BOSL internal processes for appraisal and extension of the facility (thus causing longer delays in disbursing the facility), the BOSL expressly requested that the TAA take over in managing the RFF. The key lesson derived from this experience is such that any future financing facility should by managed by the TAA/ APEX for efficiency and effectiveness, and should be extended with flexible terms.

22. These lessons learned from previous and on-going projects/ programs (IFAD supported, government and other donor-supported) have informed the design of this second phase program; challenges and opportunities have been taken into consideration in building on achievements to date.

[26] Note that the demand would have been much higher, as FSAs were in fact discouraged to apply for the Facility given the limited funds available.

Appendix 4: Detailed programme description

The rural finance sector

1. Sierra Leone still is an agriculturally dominated society, with approximately 70% of the total population living in rural areas. Additionally, the most severe poverty is concentrated outside of the main cities and towns with 70% of the rural population living below the poverty line, while 26% are food poor and have difficulty consuming the minimum dietary requirements. The typical smallholder farmer cultivates between 1-3 hectares and faces challenges in accessing input supplies, markets and working capital. With banks focused primarily on urban areas, it is estimated that their outreach to rural areas and small farmers reaches only about 4% of the potential demand. A considerable proportion of the population (33%)[27] use the informal osusu system, but this still leaves a large percentage of the rural households without access to any credit.

2. In order to quantify the need for rural credit from creditworthy, smallholder farmers who meet IFAD's client parameters who lack access to credit, a market survey was used, based on data collected under the Baseline Study, available statistics, as well as the RFCIP1 team's market knowledge. The base statistic used was the overall population of Sierra Leone (6,500,000) of which 70% live in rural areas (4,550,000). Assuming an average household size of 6 people, the number of rural households was calculated at about 758,000. It was estimated that approximately 80% of these households would meet IFAD's client parameters, resulting in approximately 607,000 households. The baseline survey found that about 27% of the population did not need loans (164,000) and that 70% of those that need loans do not have access (310,000 households). The considered opinion of the staff of the existing TAA was that 75% of these households would be considered creditworthy, resulting in about 232,000 creditworthy households looking for credit. The baseline survey estimated that about 33% of these clients already had access to cheap credit under the osusu system and other credit available and thus would not access credit provided on the proposed terms. This results in about 156,000 creditworthy rural households that meet IFAD's client parameters who are looking for credit. Assuming a maximum loan size of USD350, the net creditworthy demand for credit, therefore, would be approximately USD 55,000,000.

The performance of RFCIP

3. RFCIP2 is designed as a follow-on to RFCIP1, which was grant funded. Overall, RFCIP1 is considered a success story, with 95% of its objectives reached and an overall disbursement rate to date of 92%. More pertinently under the rural finance component 42 Financial Services Associations (FSAs) and 9 Community Banks (CBs) are functional. As of 30/9/2012, the CBs have mobilised deposits from the general public of USD 2.5 million from 19,000 savers and have a loan portfolio outstanding of USD 1.9 million to about 11,600 loan clients. While the 3 new CBs started under the programme are reporting at Portfolio at Risk greater than 30 days (PAR>30 days) of 3%, the 6 restructured CBs have gradually decreased their PAR>30 down to 13% of their outstanding portfolios, indicating that further work on strengthening loan portfolio management is needed. Concurrently, the 42 FSAs that have been started under the RFCIP and SCP-GAFSP programmes have about USD 790,000 in contributed share capital from 34,000 shareholders and have a loan portfolio outstanding of USD 1,075,000 to 6,000 borrowers. This FSA PAR >30 days is a more acceptable 4.12%. 32 of the FSAs have reached operational sustainability already, and the CBs started under RFCIP1 are trending towards operational sustainability

4. The above statistics indicate that with the appropriate level of technical assistance and training, combined with strong oversight of a Technical Assistance Agency (TAA) the FSA/CB models

[27] Baseline Survey.

are capable of providing retail financial services to remote rural areas on an effective basis. Under the proposed RFCIP2, the emphasis will be on consolidating the success of RFCIP1, and leveraging the lessons learned. The new programme will work with on-going projects to strengthen the rural finance sector and develop the necessary exit strategies that will ensure the sustainability of the sector and its institutions.

RFCIP2 Programme Description

5. The main focus of the programme is to strengthen the capacity of the finance service providers in rural areas, in order to increase their outreach and provide demand-driven services to rural communities. A key feature of the programme's approach is that it is business-oriented. This begins at the retail rural financial institutions (RFIs) level where FSAs and CBs are established on the basis of sound and viable business plans and managed on business principles. This same approach will be adopted at the end client level whereby **access to rural finance will also be conditioned on viable business plans**. Finally, it will be critically important that programme support is evaluated against results, and the performance indicated in both the business plans and in the loan applications. All loan and support agreements, at both the wholesale and retail level, therefore, will be conditional on performance and results.

6. **Target area**. The RFCIP2 will be a nation-wide programme, covering all districts in Sierra Leone (13 districts, including rural areas of the Western District, outside Freetown). Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the on-going IFAD-supported operations, namely RFCIP, RCPRP and SCP-GAFSP; to build on what has already been achieved and to maximise impact. This will include targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

7. **Target group and strategy**. The target group would comprise poor rural people, with a focus on those displaying a willingness and commitment towards adopting business-oriented principles; this further implies that the target group would be the economically active poor. This group would include those belonging to the following categories: (i) farmers (smallholders and medium-sized); and (ii) micro- and small-scale entrepreneurs. Special attention will be given to rural women and youth, using proven models and approaches tested under the RFCIP1. As part of the core targeting strategy, ensuring pro-poor and farmer-friendly financial products will be emphasized. The strategy is one of *access*; thus the project has been conceived on the basis of: i) geographical proximity to the target group; and ii) adapted products. The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger pro-poor focus and better outreach to farmers.

8. Assuming that each FSA and CB will be able to substantially extend its outreach to the community, the RFCIP2 could reach some 285,000 rural households with various financial products during a 9 year span.

Programme development objective

9. In alignment with GOSL priority objectives, as articulated in the PRSP and NSADP, the overall **programme goal** of the proposed second phase 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, thereby enabling development of the agricultural sector. In order to fill in the void in the districts not covered by RFCIP1 and also to consolidate the gains made to date in the RFCIP1 districts, the proposed programme will up-scale the on-going RFCIP1 to a national level and will forge linkages with other IFAD and donor supported projects. Ensuring that the rural financial system can continue to meet the needs of the rural communities it serves, will necessitate a concerted effort to promote their profitability and long-term sustainability of the programme supported RFIs.

10. To achieve its goals and objectives, the project will finance two mutually reinforcing components:

    Component 1: Consolidation of the rural finance system of FSAs, CBs and the TAA/APEX . This component will have two sub-components;

        Sub-Component 1.1: Sustainable and autonomous RFIs.

        Sub-Component 1.2: Promotion of agricultural financial products

    Component 2: Project management and coordination.

11. The programme will be implemented over an 9-year period, focused on component 1, the consolidation of the rural finance system, and which will be complemented and reinforced by programme management and coordination (component 2).

12. Within the rural financial structure, the unprecedented growth (and further expected growth) of FSAs, CBs, has highlighted the absolute need to ensure sustainability of the system. To achieve this, these institutions, together with the TAA/APEX, must first and foremost, be in themselves, sustainable and profitable. They must be stable institutions with the operational means to mobilize funds and provide the rural population with access to financing. Technical support and assistance as a first measure continues to be critical in the interim period until such a time as the institutions can be fully autonomous.

13. In addition, the underlying challenge of inadequate capital at the level of the RFIs continues to be a major impediment to growth within the system. However, in testing the Refinance Facility under RFCIP1, the pilot has demonstrated that there is a high level of demand for financing. Additionally, it has shown that access to external credit to encourage on-lending works with good performance results and provides important revenue (through interest) for the RFIs. Effectively, a prudentially managed refinance facility allows for flexibility and provision of both agricultural and working capital loans to the programme's target group.

Component 1: strengthening and expanding the rural finance system

14. This component has the overall objective of developing the agricultural sector in Sierra Leone, and that more than 35% of the total rural population will access to rural finance services. Simultaneously, the component will ensure that the RFIs remain savings driven and under the control of their depositors/shareholders. It focuses on consolidating and ensuring the sustainability and impact of the eighty-seven (87) RFIs including four (4) regional community banks that are expected to be operational by end 2015. Moreover, it will include strengthening the technical support to these institutions in the form of the TAA/APEX. The three track approach of promoting sustainability of the FSAs, CBs, and the TAA/APEX, combined with strengthening of the TAA/APEX to provide the necessary support services, establishes the foundation for growth in the rural financial system. Through these measures, the following functions will evolve: (i) provision of technical support to ensure sound management and good performance of these institutions; (ii) effective compliance with financial regulations (iii) the availability of limited liquidity through the Agricultural Finance Facility (AFF) and the capitalisation of the CBs.

Sub-component 1.1: sustainable and autonomous rural financial institutions

15. ***(1.1A) Support to the TAA/APEX***. As consolidation of the rural finance system requires building on the existing experience to date, the highly qualified and experienced TAA, and the supporting role it provides, continues to be a critical element of the overall effort. The unique characteristics of, and circumstances under which CBs and FSAs operate (their structure, clientele, business models and related operational methodologies), warrant the need for specialised support services. In view of this, an APEX institution will be established as the key service provider for all services related to the continued growth and sustainability of the RFIs (CBs and FSAs). Under RFCIP2, it is envisaged that the TAA will be transformed into an APEX

entity that will be registered under the Other Financial Services Act of 2001 (OFS Act). The APEX will provide three core service functions under RFCIP2. These are globally: (i) administration of an Agricultural Finance Facility (AFF) and the investment of capital into the CBs by outside shareholders to improve access to rural finance; (ii) provision of the inspection functions and limited supervisory duties to FSAs and CBs.; and (iii) provision of technical assistance/ support (including training). The APEX will operate under the regulatory oversight of the BOSL.

16. *The Capitalisation of the APEX.* The minimum capital necessary to register under the OFS is approximately USD 6 million. To make the APEX operationally sustainable over the long term, and to give it flexibility to adapt to evolving circumstances it is proposed to capitalise it at USD 9 million. This will be funded by transferring USD 1 million in fixed assets expenses to date on establishing the TAA, plus a cash injection of USD 8 million, to be invested by outside shareholders. Initially, the USD 8,000,000 will be allocated within the APEX between the AFF (USD 3,000,000), funds to capitalise the CBs (USD 3,000,000) and working capital (USD 2,000,000). These funds need to be part of the assets of the APEX at the time of the acceptance of its formal registration and regulatory permission is granted to commence operations under the OFS. It is anticipated that this external funding (from NASSIT and possibly the IFC) will be provided at the time of the formal registration of the APEX. The share capital of the APEX to be contributed through RFCIP1, namely the capitalisation of the fixed assets, will be held in trust for the participating CBs and FSAs. This avoids allocating individual capital holdings amongst 87 individual entities.

17. The surplus liquidity that the APEX will hold at any given point in time will be invested in high-quality short term investment instruments and/or the interbank market, so as to maximise the profitability of the APEX as well as enhance the overall liquidity.

18. *The Management Structure of the APEX.* Discussions have been held with the BOSL regarding how the management of the APEX needs to be structured to meet the requirements of the OFS Act. The proposed organigramme,(see appendix 5) broadly follows the recommendations of the BOSL, with the main departments being the Refinancing Department, the Non-refinancing Department, the Inspection Department, and the Banking Department.

19. *The Refinancing Department* will have the responsibility for managing the AFF. The department will review the creditworthiness of prospective borrowers (CBs and FSAs) from the AFF; and will recommend to management regarding whether to extend a loan, the amount, and the terms and conditions. The Department will comply with banking best practices and will assess the form and amount of collateral that would be prudent to require, bearing in mind that the APEX will be taking the credit risk on the loans to the RFIs. Most likely this collateral will consist of a floating lien over the assets of the borrowing FSA or CB. The Department will carry out an annual review of the performance of the borrower and recommend to senior management whether the line of credit should be renewed, increased, decreased or cancelled. Additionally, it will undertake due diligence of the CBs regarding the capital investment by the APEX in the CBs and make recommendations on such. It also will undertake an annual review of the CBs on the request of the investors. The decisions of the Refinancing Department will be taken independently of any input from either the Non-Refinancing Department or the Audit Department.

20. *The Non-Refinancing Department* will have the responsibility of providing technical assistance and training to the FSAs and CBs. It will work in close co-ordination with the Inspection Department and often will be brought in when the latter identifies weaknesses iin the RFIs. The Department also will have responsibility for developing the various training curricula and running the training courses and workshops. In some cases these courses will be developed in conjunction with the BOSL. The department will have the primary responsibility for updating and keeping current the various operating manuals used by the RFIs. Additionally, the department will take the lead in developing new savings and credit products, and where

possible develop industry wide policies and best practices. After 3 years the Non-Refinancing Dept. will charge the RFIs for its services. This will represent an important source of revenue for the APEX.

21. *The Inspection Department* will have the primary responsibility for ensuring that the participating RFIs are in compliance with the various regulatory requirements, are following their own policies as outlined in their manuals and are utilizing best practices. This department will consist of head office based inspectors, supported by field inspectors. These teams will undertake regular inspections of the activities of the RFIs and ensuring that the regulatory reports are correctly compiled and filed on a timely basis. The BOSL will have the right to examine the department's files at its discretion. The Inspection Department, through its regular contact with the FSAs/CBs, will act as the watchdog for any looming problems with the RFIs and will notify the Non-Refinancing Dept. of such for any necessary remedial action.

22. *The Banking Department* will have the responsibility of maintaining the current accounts with the RFIs, and ensuring that the APEX itself is in compliance with BOSL and other corporate requirements. Managing the clearing house function also will be part of its responsibilities. Additionally, it will be responsible for the cash management function, including investing surplus liquidity in short term instruments. Special training will be provided for this last mentioned responsibility.

23. The other departments (MIS and Human Resources and Accounting and Budgeting) will undertake the duties normally assigned to such departments. The internal audit department of the APEX will report directly to the Board of Directors.

24. All of the Departments will report to the Managing Director, who in turn will report to the Board of Directors. As mentioned previously, the APEX will be subject to regulatory oversight of the BOSL.

25. **APEX services***.* The mission of the APEX is to provide vital banking and non-banking demand-driven support services to CBs and FSAs with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate. An extract from the APEX Business Plan is provided in Appendix 1 of this annex, detailing information with respect to the APEX's responsibilities and services to be rendered.

26. <u>Administration of the Capital Investment in the Community Banks.</u> The BOSL has decreed that, in future, all CBs must meet the minimum capital requirements of Le. 1,000,000,000, thereby withdrawing the minimum capital exemption that heretofore had been granted to CBs under RFCIP1. In order to meet this requirement, funding totalling approximately USD 3,000,000 will be provided under RFCIP2, to be financed by outside investors, such as NASSIT and the IFC. The APEX will undertake due diligence and will recommend to the senior management of the APEX on the appropriateness of the investment. After disbursement, the APEX will oversee these capital investments on behalf of these investors. This will involve disbursing the capital, collecting and the dividends. Later on, it will pay dividends to the external investors, as well as cashing out their shares if so requested. Additionally, the APEX could undertake an annual or a periodic review of the CBs for the investor.

27. <u>Administration of the Agricultural Finance Facility (AFF) and Agricultural Development Fund (ADF)</u>. The APEX will manage the AFF with initial funding of USD 3 million. The modalities and management arrangements for this facility, as well as the exit strategy, are presented in sub-component 1.2.

28. The AFF is being established to help provide funding to those clients who meet IFAD's target parameters and do not have, as yet, any access to funding. :

29. The projected ceiling of the AFF (US$3,000,000) is set so that it only matches the amount of funds set aside to IFAD clients by the RFIs so that it does not replace their own assets at risk.

Additionally, the total borrowings from the AFF is set at prudent limits both in terms of lending by the AFF and loan portfolio risk management ceiling by the individual RFIs themselves. The initial USD 3,000,000 limit is calculated as follows:

At the FSA level: The current capital base of the 42 FSAs is about USD790,000, amounting to an average of USD19,000 per FSA. Over a 9 year time span, the total amount of capital accumulated is expected to reach USD 30,000 per FSA through incremental shareholder investments in the FSAs. With 65 FSAs expected to be operational this would result in a total capital base of approximately USD1,950,000. By setting external credit at no more than equal to the amount of internal capital raised, thereby retaining local ownership of the FSAs by their shareholders, the projected maximum amount of credit to be extended to the FSAs under the AFF is USD1,950,000.

At the CB level: The current deposit base for the 9 CBs is USD2,670,000, equal to about USD 297,000 per CB. With 13 new CBs to be brought into the programme, it is conservatively projected that after 9 years the average deposit base for all CBs will be USD297,000 and that the total deposit base, therefore, will be about USD6,500,000. The BOSL liquidity requirements necessitate keeping a 12% cash cushion, which reduces the amount of liquidity available to lend to about USD5,750,000. Furthermore approximately 30% of the liquidity on hand relates to holdings for salary payments at 8 CBs, which further reduces lending liquidity to about USD4,700,000. Loan portfolio risk management principles establish loan concentration guidelines for each activity, and for agricultural loans to IFAD clients this has been set at 40%[28] of the total loan portfolio. Using this risk concentration ceiling, the maximum limit to IFAD clients is likely to be USD1,900,000. Using prudent guidelines, whereby the AFF funding to the agricultural sector does not exceed the funding provided by the CBs, the maximum external funding to be provided to the CBs is set at USD950,000.

The total amount of the AFF, therefore, is set at USD3,000,000.

30. The provision of supervisory and inspection functions to FSAs and CBs. In order to provide these audit/ supervisory services to FSAs and CBs, the APEX will work closely with the BOSL to establish a mechanism where the CBs will prepare and file their regulatory reports under the oversight of the APEX. The APEX then will forward the reports to BOSL. The BOSL, while placing some reliance on these reports, and the reviews of the CBs by the APEX inspection team, will retain direct supervision authority over both the CBs and the APEX[29]. Additionally, the APEX will provide an inspection function to the CBs and FSAs to assist them in strengthening their overall operations and improving the quality of their financial reports. To ensure the quality of these services, it is critical that the Managing Director and new staff within the APEX are competitively recruited[30]; the subsequent appointment of the senior staff is then subject to BOSL clearance. With the BOSL retaining the senior regulatory oversight of both the CBs and the APEX, there will not be any conflict of interest by the APEX regarding lending to CBs and FSAs and any regulatory oversight.

31. The provision of technical assistance and support. The provision of technical assistance to CBs and FSAs, already undertaken by the TAA will continue to be provided by the APEX under RFCIP2. A range of training modules will be upgraded and will, in particular, include training for agricultural lending, principles of banking and finance; cash flow lending; savings mobilisation; accounting; internal control reconciliation procedures; loan recovery management; market knowledge and development; business planning; how to analyse their own institution's

[28] This is higher than normally seen, but has been increased to allow for the fact that they are being charged with focusing on agricultural lending.
[29] Since the FSAs do not collect and intermediate deposits from the general public, they are not subject to BOSL regulations and oversight.
[30] All the existing TAA/APEX staff have been competitively recruited and have demonstrated strong performance in their assigned roles. It is anticipated that many of them will be appointed to the APEX staff.

performance; and compliance with BOSL reporting requirements. Training in governance also will be given to board members. The training for the staff of the FSAs and CBs, primarily the managers and the loan officers, will be provided through structured training courses, with on-going training on a periodic basis over the life of the programme. For the training in governance, the Chairmen of the respective Boards of Directors will attend a formal training session, in conjunction with the managers of the FSAs/CBs, who then will provide training to the other Board members on a train the trainers basis. The above training will be provided by both external and national consultants, who will prepare and deliver training courses in these subjects. This training and technical assistance will be provided by the Non-Refinance Department, whose main responsibility is to provide these services to the FSAs and CBs.

32. Initially, the delivery of APEX services will be provided on a no fee basis. After the RFIs achieving operational sustainability, provisionally projected to be in year 4, the service will be fee-based, calculated on the cost incurred by the APEX in providing the services, together with a profit margin. Until such a time as they reach operational sustainability, the programme will cover the cost of services.

33. The APEX has demonstrated proven performance to date, and based on its extensive experience, the APEX has developed a Business Plan to meet the additional requirements of the RFCIP2. The APEX Business Plan takes into consideration the required delivery of quality services, and the need to reach autonomy and sustain its core activities within a three year timeframe. Projections and assumptions in the APEX Business Plan are also linked to the Business Plans of the CBs and FSAs.

34. The Cash Management Unit: A cash management unit will be established within the Banking Department. This unit not only will manage the short term liquidity services of the APEX, but also will provide assistance to the CBs and the FSAs for investing their surplus funds. The investment of choice will be the GOSL Treasury Bills with 3 or 6 month maturities, which are auctioned every week and carry no risk. Should the APEX underbid at these auctions and, therefore, not be awarded any Treasury Bills, the fall-back investment will be overnight or weekly placement of liquidity in the Interbank Market. The unit will deal only with the recognised quality banks participating in this market.

35. Cheque Clearing: Discussions have been held with the BOSL for the APEX to act as a clearing house bank for the participating CBs. Currently, the CBs clear through the BOSL, which incurs considerable delays in the collection and settlement of receipts and payments. The APEX will establish its cheque clearing facility at the new Kenema head office and will act as the clearing house bank for the CBs in the network, clearing through the BOSL branch in Kenema.

36. Correspondent Banking. The APEX will establish a correspondent banking relationship on a trial basis with a European bank that handles the majority of the foreign exchange inflows for export crops, in particular coffee and cocoa. Initially, this relationship will be used to handle the internal flow of funds from the European based purchasers of these commodities. At a later date, a wider range of correspondent banking activities will be considered.

37. Wire Transfers. With its nationwide network of CBs, the APEX will be well-positioned to serve the booming wire transfer business in Sierra Leone. It is conservatively estimated that the APEX should be able to capture a 5% market share, for which it would receive a 1% commission.

38. The Programme's Exit Strategy from the APEX. The exit strategy of the programme from supporting the APEX is for the latter to achieve operational sustainability. It is anticipated that its basic sources of income will be the interest on the loans under the AFF and the ADF, income from its short term investments, and fees for services rendered, including training fees.

39. The projections for the sustainability of the APEX are as follows and are based on the following assumptions:

(a) RFCIP2 will provide the USD 9,000,000 in share capital to meet the BOSL minimum requirements. USD 8,000,000 will be in cash from external investors and USD 1,000,000 by the transfer of fixed assets from RFCIP1.

(b) The rate of inflation will be 10% per annum.

(c) The foreign exchange rate is SL4,350/USD1.

(d) The number of participating RFIs in the APEX will rise to 65 FSAs and 22 CBs.

(e) The operating costs increase at the rate of inflation.

(f) The salaries of the APEX staff increase at the rate of inflation each year.

(g) Surplus working capital and AFF funds will be invested in short term treasury bills at 21% the first year and then declining by 1% per annum for each following year.

(h) Loan to the RFIs will be at a rate of 12% p.a.

(i) The APEX will start charging the FSAs and CBs for its technical assistance and advice in year 3 of operations.

(j) The RFCIP programme will support the APEX for the first 3 years, paying for all operating expenses excluding the loan loss provision, and the provision for depreciation.

(k) The earnings of the APEX and the RFIs will not be subject to income tax.

(l) The USD 3,000,000 for recapitalising the CBs will be disbursed immediately and the dividends thereon will be payable immediately.

(m) The rate of drawdown under the USD 3,000,000 AFF will be relatively rapid, given the likely strong demand for liquidity by the RFIs. Assuming no drawdowns in the first 6 months of operations, the AFF is projected to be fully utilised by year 4.

(n) The Board of Directors of the APEX will approve the payment of dividends to the external shareholders at a yield of 12% p.a. starting in year 4.

Projections

AB Projected Profit and Loss Statement

Income	2013	2014	2015	2016	2017	2018	2019
Interest Income from Agric. Development RFF	132,000.00	195,600.00	317,760.00	357,907.20	354,005.28	350,515.56	359,328.33
Income from Service Fees (FSAs & CBs)			407,749.88	407,749.88	407,749.88	407,749.88	407,749.88
Income from Investment Sur-cap	851,400.00	701,400.00	464,400.00	377,613.60	363,592.08	348,336.29	316,095.56
Income from Invetsment (Grant+income)	-	243,131.07	512,116.21	879,607.25	909,820.27	923,331.34	929,095.61
Income from Invetsment - Community Bank	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00
Income from Rent			54,000.00	59,400.00	65,340.00	71,874.00	79,061.40
Income from Money Transfer			84,000.00	84,000.00	84,000.00	84,000.00	84,000.00
Other Sundry Income	42,570.00	46,827.00	51,509.70	56,660.67	62,326.74	68,559.41	75,415.35
Total Operating Income	**1,385,970.00**	**1,546,958.07**	**2,251,535.79**	**2,582,938.60**	**2,606,834.25**	**2,614,366.48**	**2,610,746.13**
Expenses							
Interest Expenses							
Loan Loss Provision	33,000.00	48,900.00	79,440.00	89,476.80	88,501.32	87,628.89	89,832.08
BoD expenses	15,400.00	15,785.00	16,179.63	16,584.12	16,998.72	17,423.69	17,859.28
Salaries & Benefits	515,300.00	566,830.00	623,513.00	685,864.30	754,450.73	829,895.80	912,885.38
Administrative Expense	32,916.28	33,739.19	34,582.67	35,888.49	37,249.03	38,666.75	40,144.24
Rent & Utilities	31,000.00	31,775.00	32,569.38	33,383.61	34,218.20	35,073.65	35,950.50
Travel & Transport	66,600.00	68,265.00	69,971.63	72,430.09	74,985.47	77,641.97	80,403.97
Training	501,800.00	451,800.00	298,400.00	136,100.00	141,710.00	67,881.00	74,669.10
Depreciation	195,203.00	95,244.00	103,165.00	103,166.00	94,417.00	94,418.00	94,419.00
Other	324,083.72	141,320.81	98,976.33	25,000.00	27,500.00	30,250.00	33,275.00
Total Expenses	**1,715,303.00**	**1,453,659.00**	**1,356,797.63**	**1,197,893.41**	**1,270,030.47**	**1,278,879.75**	**1,379,438.55**
Net Operating Income	**(329,333.00)**	**93,299.07**	**894,738.17**	**1,385,045.19**	**1,336,803.77**	**1,335,486.73**	**1,231,307.58**
Grant Income	**1,487,100.00**	**1,309,515.00**	**1,174,192.63**				
Dividend Paid				**960,000.00**	**960,000.00**	**960,000.00**	**960,000.00**
Total Income	**1,157,767.00**	**1,402,814.07**	**2,068,930.79**	**425,045.19**	**376,803.77**	**375,486.73**	**271,307.58**

APEX Projected Balance Sheet (in USD)							
BALANCE SHEET	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Cash and Due from Banks/ BoSL	1,385,970.00	1,742,161.07	2,541,982.79	1,011,299.99	1,048,964.02	1,133,682.81	1,120,699.70
AFF to CBs and FSAs	1,100,000.00	1,630,000.00	2,648,000.00	2,982,560.00	2,950,044.00	2,920,963.00	2,994,402.75
Loan Loss Reserves	(33,000.00)	(48,900.00)	(79,440.00)	(89,476.80)	(88,501.32)	(87,628.89)	(89,832.08)
Gross Fixed Assets	1,396,666.67	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00
Accumulated Depreciation	(195,203.00)	(290,447.00)	(393,612.00)	(496,778.00)	(591,195.00)	(685,613.00)	(780,032.00)
Long Term Investment with Community Bank	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Short Term Investment (grant+ income)		1,157,767.00	2,560,581.07	4,629,511.86	5,054,557.06	5,431,360.83	5,806,847.56
Short Term Investment from Surplus capital	3,870,000.00	3,340,000.00	2,322,000.00	1,987,440.00	2,019,956.00	2,049,037.00	1,975,597.25
CBs Clearing Account	1,381,576.18	1,519,733.80	1,671,707.18	1,838,877.90	2,022,765.69	2,225,042.26	2,447,546.49
TOTAL ASSETS	**11,906,009.85**	**13,630,314.87**	**15,851,219.04**	**16,443,434.96**	**16,996,590.45**	**17,566,844.01**	**18,055,229.66**
LIABILITIES AND EQUITY							
CBs Clearing Account	1,381,576.18	1,519,733.80	1,671,707.18	1,838,877.90	2,022,765.69	2,225,042.26	2,447,546.49
Deferred Income	-	-	-	-	-	-	-
TOTAL LIABILITIES	**1,381,576.18**	**1,519,733.80**	**1,671,707.18**	**1,838,877.90**	**2,022,765.69**	**2,225,042.26**	**2,447,546.49**
Share Capital	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00
Profit/Loss - Prior Years	-	(329,333.00)	(236,033.93)	658,704.24	1,083,749.43	1,453,017.13	1,820,994.12
Profit/Loss - Current Year	(329,333.00)	93,299.07	894,738.17	425,045.19	369,267.70	367,976.99	265,881.43
Donated Equity Current Year	1,853,766.67	1,492,848.33	1,174,192.63	-	-	-	-
Donated Equity Prior Year	-	1,853,766.67	3,346,615.00	4,520,807.63	4,520,807.63	4,520,807.63	4,520,807.63
Total Equity	**10,524,433.67**	**12,110,581.07**	**14,179,511.86**	**14,604,557.06**	**14,973,824.76**	**15,341,801.75**	**15,607,683.18**
Total Equity+Total Liability	**11,906,009.85**	**13,630,314.87**	**15,851,219.04**	**16,443,434.96**	**16,996,590.45**	**17,566,844.01**	**18,055,229.66**

40. The above forecast shows that the APEX likely will achieve operational sustainability in the second year of operations, and more certainly in the third year. Initially, the majority of the income will come from the dividends from the capitalisation of the CBs and the income from investments in short term Treasury Bills and in the interbank market. Progressively, though, more income will flow from the AFF interest until year 3, and from the service fees to be charged by the Non-Finance Department for its services. Additionally, there will be increasing income from the rental of space for the regional CBs, the 1% commission for facilitating money transfers through the network of CBs, and sundry income, including a cheque clearing fee from the CBs.

41. The loan portfolio is projected to rise quite quickly after its initial 6 month hiatus at the start of RFCIP2. The rate of increase is projected to increase 48% in year 2, and 62% in year 3, and then stabilise at around the ceiling of USD 3,000,000 thereafter. It is worth noting, though, that in year 4 (2016) and in the following years, the APEX will actually not derive any income from the capitalisation of the CBs and the loans to the FSAs and CBs, since the projected income from these investments, 12%, is from 2016, thereafter matched by the presumed payment of dividends on the amount of external investments (US8 million). Thus after 2016, the main source of income will be the interest earned on its investment portfolio and equity that has been accumulated during the first 3 years.

42. The build-up of the net equity in the first 3 years of operations is due to the reimbursement of the APEX's operating expenses by RFCIP2. This amounts to almost US$4,000,000. This increase has been supplemented by the re-investment of the interest earned from the short term investments. Consequently, the net worth of the APEX rises from US9,000,000 at registration to almost US$16,000,000 at the end of the third year (2016). It is this compilation of net equity and, therefore, investable funds that enables the APEX to access commercial debt or equity at a rate that meets their earnings requirements and pay a real rate of return (inflation +2%), while simultaneously making funding available to CBs and FSAs at market determined rates. This permits these RFIs to earn a reasonable spread on their loan portfolios, thereby expediting the build-up of their respective capital bases and liquid assets.

43. The projection indicates that after the initial start-up costs, including the high initial level of training, the operational expenses remain relatively stable after the second year. The main cause of the limited increase in these costs is salaries and benefits. The costs driver of this expense is an increase in staff in the first year and then only a slight rise in headcount thereafter. The main increase in salary costs is the annual cost of living adjustments (10%). The somewhat fixed nature of the expense base partially offsets the declining revenue from investment income as the projected interest rate to be received on Treasury Bills declines by 1% p.a.

44. Over the time period 2014 to 2019, the Return on Assets (ROA) is projected to rise from 0.68% to a healthy 6.8%, pre dividend payment. Concurrently, the Return on Equity (ROE) rises from 0.77% to 7.89 pre dividend payment over the same period. These ratios will peak in 2015 and then decline gradually thereafter. The narrowness in the spread between these 2 ratios is due to the relatively low level of debt on the balance sheet of the APEX.

45. Sensitivity analysis indicates that while only a limited change in some of the projected activities would plunge the APEX into a loss in the second year of operations, the projected earnings in year 3 (2015) are much more robust. In that year gross income could decline by 35% from its projected level and the APEX would remain operationally sustainable. Similarly, the basic operating costs could increase by more than 50% without putting the APEX into a deficit position. Concurrently, gross revenue could decline by 20% and operating costs rise by almost 30% and the APEX would remain profitable.

46. The above analysis indicates that the proposed structure of the APEX will result in it being operationally sustainable for the foreseeable future. In the very long term, if interest rates on investments decline to single digits and stay there, consideration may have to be given to raising the interest rates on loans to the FSAs and CBs, or investing in slightly more risky assets. The reduction of future operating costs also would need to be considered.

47. ***(1.1B) Support to the Community Banks.*** The CBs are seen as a key factor to achieve outreach to rural areas, through community owned and focused financial institutions. The experience under RFCIP1 has been that with an astute combination of liquidity and outreach they can provide a range of financial services to their clientele on a sustainable basis. Based on these results, the support to CBs will continue to focus on expanding the number and outreach of the district –based CBs. This focus will include strengthening their autonomy and self-sufficiency so they become viable and form the critical link with rural agricultural communities and the formal financial sector. Ultimately, it is expected that each CB would reach out to approximately 10,000 rural households. To this end, support to CBs will focus on (a) addressing the capital limitations of these institutions (b) strengthening the management of the CBs, (c) upgrading their infrastructure and MIS systems and (d) improving the financial performance of CBs in a sustainable manner.

48. *The CB Capital Limitations.* Locally based CBs have certain unique advantages regarding the provision of financial services, the most important of which is that they know both the local economy and their client base. This client base will include the typical smallholder farmer/youth/women who form IFAD's target market. The typical CB, though, continues to face both capital and liquidity shortages that limit their ability to extend agricultural lending. Currently, the primary sources of funding for CBs are their share capital and depositors' savings, which are limited. This results in the CBs finding that the best use of their funds is to make very short term loans that turn over quickly, such as for petty trading or salary loans, rather than making longer term agricultural loans. Furthermore, the BOSL's regulatory requirements prohibit them from lending more than 0.5% of their net worth to a single borrower. Due to the challenges in raising share capital (it is unrealistic to expect significant mobilisation of capital from farmers), the net equity of the average CB is very small, resulting in very small loan sizes.

49. Under the Other Financial Services Act 2001, Institutions incorporated or registered in Sierra Leone must, at all times, maintain in Leones an unimpaired minimum paid-up capital of Le 1,000,000,000 (approx. US$ 230,000 at time of writing); the Institution also shall not invest more than 30% of its capital base on fixed assets[31]. The CBs that currently are supported by RFCIP1 have received an exemption from the BOSL whereby the local shareholders raised approximately USD10,000, RFCIP1 granted USD33,000 in liquid capital and about USD69,000 was invested in them in the form of fixed assets. The BOSL has now cancelled this exemption and will require that in future all CBs now must meet the minimum requirement of Le 1,000,000,000.

50. NASSIT (and possibly the IFC) is willing to invest in shares of the APEX, USD3,000,000 which will be used to capitalise the CBs. thereby bringing their capital up to the minimum capital requirements of Le. 1,000,000,000. The investments only will be made into those CBs that are sustainable and will be providing financial services in the rural areas. This investment will be made in shares and will be held in the name of a nominee acting on behalf of the external investors. , . It is estimated that for the existing CBs this investment would need to be approximately USD120,000, while the new CBs it will have to be approximately USD 170,000. The total investment required would be approximately USD 3,000,000, with additional capitalisation coming from RFCIP2 through the capital assets. Effectively, this cash by NASSIT investment would not only serve to increase outreach in terms of access to credit and other financial services, but it would also serve to stimulate the attainment of CB profitability and sustainability in a much shorter timeframe, whilst simultaneously meeting the capital

[31] Note that in contrast, Commercial Banks are required to maintain Le 20,000,000,000.

requirement regulation discussed above. These equity investments, though, will have limited voting rights, so that ownership in, and influence over, the CBs remains under the control of the local community. It is expected that NASSIT will forego any immediate return on its investment until year 4, when a dividend yielding 12% will be paid, since their primary aim is the development of the rural sector.

51. It is critical to emphasize that this equity investment will be extended to CBs on the basis of their sound and viable business plans, which also will reflect financial projections that factor in the repayment on the initial investment should NASSIT want to have an early cash out clause

52. *Strengthening the Management of the CBs.* While much has been achieved in developing and restructuring CBs, issues remain that impact on their performance and on their risk profile for both depositors and investors. These include: lack of transparency, weak record keeping, poor loan portfolio quality which requires the cleaning-up of the books (already being undertaken under RFCIP by external auditors), reconciliation of bank statements, proper functioning of the cheque clearing system and transfers. The CBs also suffered from inadequate/inappropriate products, errors in bookkeeping, lack of familiarity with the computerized systems and lack of experience/ competencies in loan appraisal for agricultural and SME loans, institutional analysis and internal control systems. Under the training component USD 533,000 has been set aside to strengthen the capacity of the staff of the CBs (including governance training for the respective Boards of Directors). The types of training provided, the duration of the courses and the frequency with which they will be provided is given in appendix 4 of this annex. In addition, there will be substantial on-the-job capacity building through direct support provided by the team from the APEX.

53. *Upgrading the Infrastructure and the MIS Systems.* As part of the capitalization of the CBs, RFCIP2 will provide new office equipment, furnishings and transportation to the CBs as a form of equity. For the existing CBs this will include the upgrading of their equipment, refurbishing of their building and the provision of solar panels. In certain cases new vehicles and motorcycles will be provided. In addition one additional CB and four “regional” CBs will be established in Bo, Kenema, Makeni and Freetown to facilitate access to banking services. These CBs will be completely furnished, and provision also is made for the construction of staff quarters at 14 CBs.

54. The MIS system also will be upgraded and VSAT access to link all CBs will be provided. This cost is budgeted at USD 270,000. Additionally, USD 250,000 has been budgeted to publicize the services of the CBs and to sensitize the local communities to their services they offer through a series of community meetings.

55. As already noted, once the CBs have reached operational sustainability, they will be fully responsible for paying staff salaries and meeting their operating expenses from revenues earned as per their business plans. Project costs, therefore, do not make any undue provision for such expenditures beyond their attainment of operational sustainability. Given the equity investment to be provided by NASSIT and other investors, the project expects to support the operating cost of the established CBs, for a maximum of 2 years, and 2.5 years for start-up CBs.

56. *The Operational Sustainability for Newly Established Community Banks.* Detailed below is a projection for the establishment of a new CB. This projection is based on the following assumptions:

(a) The rate of inflation is 10%.

(b) The CB borrows from the AFF at a rate of inflation plus 2%, projected here as 12%.

(c) The interest rates the CB charges on loans is 30% flat for a loan with a 6 month maturity, plus a commission of 2% of the loan amount. This matches the rates currently charged by the existing CBs.

(d) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings and on savings. In year 3, the rate of reimbursement declines to 50% of the above defined operating expenses.

(e) The average growth rate of the loan portfolio is 22.5%

(f) The loan loss provision is 5%.

(g) The local shareholders will contribute approximately USD10,000 in paid-up capital. RFCIP will provide approximately USD105,000 in capital expenditure as a capital investment. An external shareholder will invest about USD 170,0000 as capital in the form of shares. This external capital pays a dividend of 12% in year 1.

Projections

Income statements		2013	2014	2015	2016	2017
Interest and fee income from loans						
	Interest Income from Loans	31,917,315.00	123,719,019.69	297,059,127.04	472,485,646.84	626,867,109.53
	Loan Fees	7,715,610.00	40,969,393.01	105,496,147.31	191,612,586.47	238,933,545.46
Income from other finance-related services						
Income from investments		120,851,500.00	45,824,528.40	47,412,750.00	42,840,000.00	14,700,000.00
Total Operating Income		**160,484,425.00**	**210,512,941.10**	**449,968,024.35**	**706,938,233.31**	**880,500,655.00**
Interest and fee expense on Agric RFF debt		-			37,122,785.92	19,122,785.92
Interest and fee expense on RFCIP+GAFSP RFF debt		-				
Interest Expense on Deposit		4,200,000.00	4,620,000.00	5,082,000.00	5,590,200.00	6,149,220.00
Loan loss provision expense		2,428,130.00	12,061,954.80	31,398,633.87	44,745,481.24	50,500,961.25
Administrative expense -- Personnel		137,424,360.00	167,158,860.00	201,555,360.00	235,951,860.00	258,124,098.00
Service Fee - AB		-			53,573,803.47	53,573,803.47
Other administrative expense		**63,242,330.90**	**59,242,330.90**	**62,777,930.90**	**67,320,650.90**	**72,411,914.90**
	office materials and supplies	3,840,000.00	3,840,000.00	4,608,000.00	5,529,600.00	6,635,520.00
	transportation and travel	4,050,000.00	4,050,000.00	4,860,000.00	5,832,000.00	6,998,400.00
	BoD Related Expenses	3,000,000.00	3,000,000.00	3,000,000.00	3,300,000.00	3,300,000.00
	publicity and publications	4,200,000.00	4,200,000.00	5,040,000.00	6,048,000.00	7,257,600.00
	repairs and maintenance	1,200,000.00	1,200,000.00	1,440,000.00	1,728,000.00	2,073,600.00
	utilities	4,388,000.00	4,388,000.00	5,265,600.00	6,318,720.00	7,582,464.00
	depreciation	38,564,330.90	38,564,330.90	38,564,330.90	38,564,330.90	38,564,330.90
	other	4,000,000.00	0			
Total Operating Expenses		**207,294,820.90**	**243,083,145.70**	**300,813,924.77**	**444,304,781.53**	**459,882,783.54**
NET OPERATING PROFIT (LOSS)		**(46,810,395.90)**	**(32,570,204.60)**	**149,154,099.58**	**262,633,451.78**	**420,617,871.46**
Cash donations for financial services		162,102,360.00	187,836,860.00	112,884,480.00		
TOTAL CONSOLIDATED PROFIT/LOSS		**115,291,964.10**	**155,266,655.40**	**262,038,579.58**	**262,633,451.78**	**420,617,871.46**
Dividend Paid		**87,720,000.00**	**87,720,000.00**	**87,720,000.00**	**81,611,126.25**	**67,214,307.89**
Net Income		**27,571,964.10**	**67,546,655.40**	**174,318,579.58**	**181,022,325.54**	**353,403,563.57**

		2013	2014	2015	2016	2017
ASSETS						
	Notes & Coins	254,999,905.00	271,186,956.03	107,059,321.61	150,882,137.51	205,188,908.32
	Balance with Apex Bank	100,000,000.00	77,000,000.00	57,757,750.00	45,254,000.00	49,779,400.00
	Short-term investments in market instruments	425,501,520.00	218,212,040.00	225,775,000.00	204,000,000.00	70,000,000.00
	Loan Portfolio	242,813,000.00	603,097,740.07	1,046,621,129.05	1,491,516,041.21	1,683,365,374.86
	(Loan loss reserve)	(2,428,130.00)	(12,061,954.80)	(31,398,633.87)	(44,745,481.24)	(50,500,961.25)
	Long-term investments					
	Fixed Assets	457,126,545.00	457,126,545.00	457,126,545.00	473,026,545.00	525,026,545.00
	Accumulated depreciation	(38,564,330.90)	(77,128,661.80)	(115,692,992.70)	(154,257,323.60)	(192,821,654.50)
	Net fixed assets					
TOTAL ASSETS		**1,439,448,509.10**	**1,537,432,664.50**	**1,747,248,119.08**	**2,165,675,918.88**	**2,290,037,612.44**
LIABILITIES						
	Savings accounts: voluntary	65,000,000.00	71,500,000.00	78,650,000.00	86,515,000.00	95,166,500.00
	Current Account	100,000,000.00	110,000,000.00	121,000,000.00	133,100,000.00	146,410,000.00
	Time deposits	5,000,000.00	5,500,000.00	6,050,000.00	6,655,000.00	7,320,500.00
	Loans: AFF				309,356,549.36	159,356,549.36
	Short-term Borrowings- RFF					
TOTAL LIABILITIES		**170,000,000.00**	**187,000,000.00**	**205,700,000.00**	**535,626,549.36**	**408,253,549.36**
EQUITY						
	Paid-in equity from shareholders	53,750,000.00	67,187,500.00	83,984,375.00	104,980,468.75	131,225,585.94
	Shareholder-Fixed Asset	457,126,545.00	457,126,545.00	457,126,545.00	457,126,545.00	457,126,545.00
	Donated equity -- prior years, cumulative	-	162,102,360.00	349,939,220.00	462,823,700.00	462,823,700.00
	Donated equity -- current year	162,102,360.00	187,836,860.00	112,884,480.00	-	-
	Prior years' retained earnings/losses	-	(134,530,395.90)	(254,820,600.50)	(193,386,500.92)	(12,364,175.38)
	Current year retained earnings/loss	(134,530,395.90)	(120,290,204.60)	61,434,099.58	181,022,325.54	353,403,563.57
	New Shares	**731,000,000.00**	**731,000,000.00**	**731,000,000.00**	**617,482,831.15**	**489,568,843.95**
TOTAL EQUITY		**1,269,448,509.10**	**1,350,432,664.50**	**1,541,548,119.08**	**1,630,049,369.53**	**1,881,784,063.08**
TOTAL LIABILITIES AND EQUITY		**1,439,448,509.10**	**1,537,432,664.50**	**1,747,248,119.08**	**2,165,675,918.88**	**2,290,037,612.44**
		-	-	-	-	-

57. The above projection indicates that a typical start up CB will reach operational sustainability in three years, (even with paying dividends on the new capital), with RFCIP2 reimbursing the operating costs (except depreciation, interest and the loan loss provision) in full for the first 2 years, and 50% in year 3. Thereafter, the CBs will be responsible for their own operating costs and for purchasing and upgrading any fixed assets.

58. The CB will be fully capitalised at the time of registration. Loan disbursement is not anticipated until the second half of the first year of operations. During this start-up phase, the CB, with advice from the Cash Management Unit of the APEX's Banking Department, will invest these funds in Treasury Bills and earn interest thereon, currently projected at 21% p.a. and then declining by 1% annually. This income will accrue to the CB and help build its capital base. The progressive liquidation of these short term investments will provide sufficient liquidity to the CB to fund the growth in the loan portfolio for the first three years. Sufficient cash and short term investments will be held by the CBs to meet the BOSL liquidity requirements.

59. After a 6 month hiatus after the registration of the CB, the loan portfolio is portfolio is forecast to grow 148% in the second year, 74% in the third year, 43% in the fourth year and then 15% in the fifth year. This initial rapid growth of the portfolio, followed by a flattening out of the growth curb in year 5, is typical of small RFIs. At the end of year 5 (2017) it is expected that the CB will be making 2,200 loans, with a maturity of 6 months, annually. With on-going shareholder investments and retained earnings, it is expected that eventually, each CB will reach 10,000 members, of which about 50% are forecast to be IFAD target clients. Many of the activities typically undertaken by women, particularly petty trading, will be funded from the CBs' regular financing activities.

60. Borrowings from the AFF in any meaningful amount is not projected until year 4, as the surplus capital is progressively deployed to financing the loan portfolio. In the interests of being conservative, it is assumed that the equity could be requested to be bought out in year 4 and repayment over 3 years. . Should this not occur, more liquidity would be available for lending. A gradual build-up of the deposits and savings is projected with an annualised growth rate of 10%. Most likely, the small local businesses and salaried employees will provide most of the current accounts, while small farmers probably will save through savings accounts that will pay interest at 6% p.a.

61. The staffing will remain relatively constant for the first 5 years. In the first year the number of employees will be 5. Thereafter, one additional loan officer will be recruited in years 2 and 4 to service the growing loan portfolio. These costs include various fringe benefits (including a housing allowance for certain staff and their NASSIT contributions). The basic increase in these costs is the result of the aforementioned hiring of staff.

62. In year three, the start-up CB will earn a return on equity of 9.7%, and a return on total assets of 8.5%. These ratios progressively increase to a 22.3% return on equity and a 18.4% return on assets ratio in year 5 (2017). This relatively narrow spread between these ratios is due to low leverage ratio between debt and equity which is a combination of BOSL requirements and prudent banking. The sharp jump in net income in years 3 and 4 primarily is due to the increase in the loan portfolio outstanding due to the hiring of an additional loan officer, and the relatively fixed nature of the operating expenses, in particular salaries. Dividend distributions also are declining due to the abovementioned conservative treatment of the capital.

63. Sensitivity analysis indicates that if income from the loan portfolio (interest and commissions) fall by 15% in 2015, the typical start-up will be able to pay the projected dividend. . Similarly if the total operating costs rise by 15% without any correspondent increase in income, the CB will still be able to meet the projected dividend payment.. Similarly, a tripling of the loan loss provision would not place the dividend at risk.

64. The above analysis indicates that a start-up CB has a reasonable chance of achieving operational sustainability by year 3, and more certainly by year 4, after allowing for the

dividend. Thereafter, with the loan portfolio growing at a modest rate, and the fixed cast nature of its operational expenses, this profitability, and therefore increase in the capital base, is expected to steadily improve.

65. *The Projected Operational Sustainability for Existing Community Banks Participating in RFCIP2*[32]. The financial position of the established CBs that the RFCIP2 will be supporting are substantially different from the start-up CBs discussed above. Detailed below are the financial projections of a typical CB. The projections are based on the following assumptions:

(a) The rate of inflation is 10%.

(b) The CB borrows from the AFF at a rate of inflation plus 2%, projected here as 12%.

(c) The interest rates the CB charges on loans is 30% flat for a loan with a 6 month maturity, plus a commission of 2% of the loan amount. This is in line with the current rates being charged by the CBs.

(d) Interest on both the equity and the AFF will be payable in the first year, assuming a worst case scenario.

(e) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings and on savings.

(f) The average growth rate of the loan portfolio is 15%, except for year 2.

(g) The loan loss provision is 3-5%.

(h) The typical CB already will have received at least USD 10,000 from local shareholders, and will have received grant capital in the form of fixed assets and other grant capital in cash. The CB will receive a capital injection from NASSIT, or another external funder of Le 316,000,000 (about USD 73,000) so that their net equity meets the BOSL requirement of Le 1,000,000,000. This capital, will incur a dividend cost of 12% from the time of drawdown.

[32] Based on the Bambara Community Bank.

Projections

Income statements		**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Interest and fee income from loans		**375,876,071.22**	**542,362,464.50**	**696,193,482.59**	**897,128,733.07**	**1,180,157,541.75**	**1,505,532,984.97**
	Interest Income from RFCIP+GAFSP RFF	63,375,000.10	71,666,666.67	71,666,666.67	71,666,666.67	71,666,666.67	71,666,666.67
	Interest Income from Other Loans	268,188,645.51	402,282,968.26	545,949,561.92	735,205,474.30	1,004,813,769.16	1,314,767,418.99
	Loan Fees	28,886,850.00	47,663,302.50	54,812,797.88	63,034,717.56	72,489,925.19	83,363,413.97
	Service Charges	13,925,575.61	18,799,527.07	21,619,456.13	24,862,374.55	28,591,730.73	32,880,490.34
	Late Fee on Loans	1,500,000.00	1,950,000.00	2,145,000.00	2,359,500.00	2,595,450.00	2,854,995.00
Income from other finance-related services		-	-	-	-	-	-
Income from Investment							
Total Operating Income		**375,876,071.22**	**542,362,464.50**	**696,193,482.59**	**897,128,733.07**	**1,180,157,541.75**	**1,505,532,984.97**
Interest and fee expense on RFF debt		31,687,500.05	35,833,333.33	77,973,333.33	139,778,666.67	242,279,200.00	356,228,970.67
Interest Expense on Deposit		6,433,359.55	7,076,695.50	7,784,365.05	8,562,801.56	9,419,081.71	10,360,989.89
Loan loss provision expense		46,144,165.77	51,944,444.44	67,641,666.67	77,223,055.56	95,718,316.67	126,081,960.00
Administrative expense -- Personnel		157,820,280.00	249,675,480.00	291,696,480.00	241,590,910.92	274,207,996.92	282,434,236.82
Service Fee - AB		-	-	-	53,573,803.47	53,573,803.47	53,573,803.47
Other administrative expense		**101,290,364.59**	**101,726,061.60**	**106,501,689.99**	**99,096,651.36**	**145,216,207.55**	**143,780,161.97**
	rent	-	-	-	-	-	-
	office materials and supplies	-	5,000,000.00	5,500,000.00	5,775,000.00	6,063,750.00	6,366,937.50
	transportation and travel	8,184,000.00	4,983,000.00	9,002,400.00	5,232,150.00	9,452,520.00	5,493,757.50
	BoD Related Expenses	1,925,000.00	2,117,500.00	2,329,250.00	2,445,712.50	2,567,998.13	2,696,398.03
	publicity and publications	495,000.00	544,500.00	598,950.00	628,897.50	660,342.38	693,359.49
	staff training	-	-	-	-	-	-
	repairs and maintenance	5,375,700.00	5,913,270.00	6,504,597.00	6,829,826.85	7,171,318.19	7,529,884.10
	utilities	-	12,000,000.00	12,600,000.00	13,230,000.00	13,891,500.00	14,586,075.00
	depreciation	58,958,833.80	42,180,777.73	38,080,777.73	29,880,777.73	68,580,777.73	67,744,349.16
	other	26,351,830.79	28,987,013.87	31,885,715.26	35,074,286.78	36,828,001.12	38,669,401.18
Total Operating Expenses		**343,375,669.96**	**446,256,014.88**	**551,597,535.04**	**619,825,889.54**	**820,414,606.31**	**972,460,122.81**
NET OPERATING PROFIT (LOSS)		**32,500,401.25**	**96,106,449.62**	**144,595,947.55**	**277,302,843.54**	**359,742,935.43**	**533,072,862.16**
Cash donations for financial services		**157,820,280.00**	**309,220,763.87**	**360,117,392.26**			
TOTAL CONSOLIDATED PROFIT/LOSS		**190,320,681.25**	**405,327,213.49**	**504,713,339.80**	**277,302,843.54**	**359,742,935.43**	**533,072,862.16**
Dividend Paid			**36,120,000.00**	**61,920,000.00**	**61,920,000.00**	**60,570,855.71**	**51,827,664.92**
Net Income		**190,320,681.25**	**369,207,213.49**	**442,793,339.80**	**215,382,843.54**	**299,172,079.72**	**481,245,197.24**

		Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
ASSETS							
	Notes & Coins	32,520,666.69	329,663,726.19	14,325,723.97	70,405,099.01	114,754,737.97	89,169,010.25
	Balance with Apex Bank	45,528,933.36	50,081,826.70	35,000,000.00	35,000,000.00	45,000,000.00	47,000,000.00
	Short-term investments in market instruments	322,633,103.44	308,613,685.46	100,000,000.00	200,000,000.00	200,000,000.00	200,000,000.00
	Total loan portfolio	922,883,315.49	1,038,888,888.89	2,072,827,162.02	2,217,920,307.82	2,550,814,949.09	3,128,471,744.23
	Loan from RFF	211,250,000.33	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89
	Other Loans from bank own capital	711,633,315.16	800,000,000.00	1,833,938,273.13	1,979,031,418.93	2,311,926,060.21	2,889,582,855.34
	(Loan loss reserve)	(46,144,165.77)	(51,944,444.44)	(67,641,666.67)	(77,223,055.56)	(95,718,316.67)	(126,081,960.00)
	Overdraft	228,864,820.30	263,194,543.35	302,673,724.85	348,074,783.58	400,286,001.12	460,328,901.28
	Other short-term assets						
	Long-term investments						
	Inter Branch/Due from own officers						
	Fixed Assets	371,901,505.61	396,301,505.61	396,301,505.61	406,301,505.61	624,201,505.61	684,201,505.61
	Accumulated depreciation	(98,421,814.71)	(140,602,592.44)	(178,683,370.17)	(208,564,147.90)	(277,144,925.63)	(344,889,274.79)
	Net fixed assets	273,479,690.90	255,698,913.17	217,618,135.44	197,737,357.71	347,056,579.98	339,312,230.82
TOTAL ASSETS		**1,924,332,344.90**	**2,386,744,176.20**	**2,921,128,116.44**	**3,277,701,696.02**	**3,935,057,193.79**	**4,609,171,161.37**
LIABILITIES							
	Savings accounts: compulsory						
	Savings accounts: voluntary	102,222,659.13	112,444,925.05	123,689,417.55	136,058,359.30	149,664,195.24	164,630,614.76
	Current Account	543,190,674.62	597,509,742.08	657,260,716.29	722,986,787.92	795,285,466.71	874,814,013.38
	Time deposits	5,000,000.00	5,500,000.00	6,050,000.00	6,655,000.00	7,320,500.00	8,052,550.00
	Loans: RFF	211,250,000.33	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89
	Short-term Borrowings						
	Deferred Income/ Grant	273,479,690.90	234,010,024.28	204,062,579.89	184,815,135.49	320,367,691.09	266,113,818.12
	Other short-term liabilities						
	Other long-term liabilities						
TOTAL LIABILITIES		**1,135,143,024.99**	**1,188,353,580.30**	**1,229,951,602.61**	**1,289,404,171.60**	**1,511,526,741.93**	**1,552,499,885.15**
EQUITY							
	Paid-in equity from shareholders	159,976,250.00	199,970,312.50	249,962,890.63	312,453,613.28	390,567,016.60	488,208,770.75
	Donated equity -- prior years, cumulative	376,760,600.00	534,580,880.00	843,801,643.87	1,203,919,036.13	1,223,166,480.53	1,281,113,924.92
	Donated equity -- current year	157,820,280.00	309,220,763.87	360,117,392.26	19,247,444.40	57,947,444.40	54,253,872.97
	Prior years' retained earnings/losses	(209,118,211.34)	(176,617,810.09)	(116,631,360.47)	(33,955,412.92)	181,427,430.61	480,599,510.34
	Current year retained earnings/loss	32,500,401.25	59,986,449.62	82,675,947.55	215,382,843.54	299,172,079.72	481,245,197.24
	ICS Grant Equity	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00
	New Equity	-	**516,000,000.00**	**516,000,000.00**	**516,000,000.00**	**470,423,910.67**	**384,513,955.53**
TOTAL EQUITY		**789,189,319.91**	**1,198,390,595.90**	**1,691,176,513.83**	**1,988,297,524.42**	**2,423,530,451.86**	**3,056,671,276.22**
TOTAL LIABILITIES AND EQUITY		**1,924,332,344.90**	**2,386,744,176.20**	**2,921,128,116.44**	**3,277,701,696.02**	**3,935,057,193.79**	**4,609,171,161.37**

66. The typical existing CB already is operationally sustainable, although with a ROE of 4.12% and a ROA of 1.69%. It also does not meet the BOSL minimum capital requirement. The injection of the quasi-equity capital will bring the equity into compliance with the BOSL requirements. Assuming the capital injection is activated in mid-2013, the funds are projected to be rapidly disbursed to meet pent-up demand, resulting in a sharp increase in the loan portfolio in 2014. Additional funding for this growth comes from the projected reimbursement of operating costs (except, depreciation, the loan loss provision and interest expenses), which will provide additional liquidity of Le. 669,000,000 over 2 years. With this incremental liquidity available, it is anticipated that the typical existing CB will not need to drawdown from the AFF until towards the end of year 1 (2013), increasing to its exposure from the original borrowing from the RFF. It is projected that by 2017, the number of loans outstanding will have risen from its current base of about 1,100, to approximately 3,900, of which more than half will be small farmers whose loans are funded by the AFF and the RFF.

67. At the same time, savings deposits are projected to grow only modestly, rising only 10% annually, thereby highlighting the need for external funding to increase the loan portfolio.

68. This incremental funding has a strong impact on the profitability, with the loan portfolio almost doubling in 2014 (year 2 of RFCIP2). This growth will be spurred by the hiring of additional loan officers. Furthermore, the profitability is leveraged by the relatively fixed nature of the operational and administrative expenses, which will increase relatively slowly compared to the growth in the portfolio.

69. By the end of the second year of RFCIP2 (2014), the mature CBs are expected to be solidly profitable, with a ROE of 8.6% and a ROA of 4.9%. This will rise sharply thereafter as the portfolio continues to expand and is funded by a progressively falling of their weighted average cost of capital; as retained net income is reinvested into the business. By year 5 (2017) the ROE is projected to be about 17.4%%, and an ROA of about 11.6%.

70. Sensitivity analysis indicates that in year 2 (2014), the projected operating income could decline by 10% and the mature CB would continue to meet its dividend obligations. Similarly if total operating expenses rose by 12%, while income remained unchanged the dividend is still safe. Likewise a doubling of the loan loss provision would still leave the mature CB operationally sustainable after the payment of the dividend.

71. For both the existing and the start-up CBs, there is a continued need for technical assistance and support. Training at both the FSA and CB level will cover the following topics with a focus on agricultural lending: principles of banking and finance; credit initiation, in particular cash flow lending; savings mobilisation; accounting; internal control reconciliation procedures; loan recovery management; market knowledge and development; business planning; how to analyse their own institution's performance; and compliance with BOSL reporting requirements. Training in governance also will be given to board members. The training for the staff of the FSAs and CBs, primarily the managers and the loan officers, will be provided through structured training courses, with on-going training on a periodic basis over the life of the programme. For the training in governance, the Chairmen of the respective Boards of Directors will attend a formal training session, in conjunction with the managers of the FSAs/CBs, who then will provide training to the other Board members on a train the trainers basis. The above training will be provided by both external and national consultants, who will prepare and deliver training courses in these subjects. The vast majority of this training will be concentrated in the first two years of RFCIP2, so as to establish a sound basis of knowledge and operating principles before the RFIs move into a strong growth mode. Before any new CBs or FSAs are opened for business, the staff will have received at least basic training in operating their respective CB and FSA model.

72. ***(1.1C) Support to FSAs.*** The FSA model is based on local residents purchasing shares in the FSA. The proceeds thereof are then on-lent to other shareholders, at an interest rate normally

set by the shareholders themselves, which in Sierra Leone ranges from 2.5% to 3% per month flat, plus a 1% initial commission. The loan size that can be taken is linked to the number of shares held in the FSA, usually at a ratio of 4:1. At the end of the year, the net income of the FSA is calculated and a dividend is distributed to the shareholders and reinvested back into the FSA. The shareholders' funds are locked into the FSA itself for relatively long periods of time, with only limited, if any, windows for cashing out the shares. If the shareholders need access to cash, they can either take a loan from the FSA, or try and sell their shares to another shareholder or an outsider. In addition to making loans, the FSAs will accept money from members for safekeeping, but do not on-lend these funds. Since the FSAs do not accept savings or time deposits from the general public, and do not intermediate funds, they are not subject to direct oversight of the BOSL.

73. Under RFCIP the FSA model has proven to be successful. By the end of 2012, 54 FSAs will have been started under RFCIP and all continue to be operational. They are supervised by the Audit Department of the TAA, and under the APEX this oversight will continue from the Inspection Department. Under RFCIP2, 6 new FSAs are forecast to be opened in 2013 and a further 5 in 2014. It is anticipated that eventually the average FSA will reach about 1,000 members. Furthermore, these community owned RFIs will provide financial services in the very remote areas of the country.

74. As noted above, the current range of services provided by FSAs are limited, and there is a clear need amongst the rural population for savings services that do not lock up their deposits for long periods of time. In order to fill this gap, a study will be undertaken by the APEX to examine the possibility of FSAs acting as agents for a nearby CB. This would entail the FSA being able to collect deposits on behalf of the CB, for which the FSA would receive a service fee. Tentative discussions have been held with the BOSL and while the details of the implementation and structure of these agencies will have to be finalised, the BOSL has agreed to consider such a role for the FSAs. Care will be taken, though, to ensure that the creation of agency relationships does not undermine the existing FSA structure.

75. With its share based structure, the FSAs' available liquidity for lending is limited, while there is considerable unmet demand for credit in rural areas. In an effort to help meet this demand, and make credit available to the IFAD demographic market, under RFCIP2 it is proposed that the FSAs will be able to borrow funds from the AFF, subject to a credit analysis and loan approval by the Refinance Department of the APEX. The maximum amount of credit that they will be able to access will be limited to the amount of the paid-in share capital that the FSA has raised, so that the maximum leverage will be capped at 1:1. Such a ceiling will help reinforce prudential lending habits and will ensure that the local shareholders retain ownership of the FSA. To reinforce this, the amount of voting power granted to the APEX (if any) will be extremely limited. Furthermore, should the FSA become either an agent or branch of a CB, an advisory committee of local shareholders will be formed to oversee the activities of the individual FSA. This will ensure that the interests of the local population are both protected and continue to be served.

76. While the performance to date of the FSAs has been encouraging, it is recognized that under RFCIP2 a considerable amount of additional technical assistance, training and infrastructure will be needed for them to become fully operationally sustainable. Consequently, it is proposed that about USD875,000 be budgeted for the provision of training, including on the basic agricultural lending, credit analysis, business planning, analysis of financial institutions, liquidity management and loan recovery. Training also will be provided on Board Governance. Funding also will be provided for upgrading the MIS system and creating internet connectivity (USD 173,000). Approximately USD2,500,000 has been budgeted for the construction of the FSAs themselves, staff quarters, upgrades of existing buildings and the necessary office equipment, furniture and fixtures. Also, USD286,000 has been budgeted for holding rallies and creating public awareness of the FSA network and the services that they can provide.

77. *The Operational Sustainability of the FSA Model.* Detailed below is a projection of a typical FSA. This projection is based on the following assumptions.

(a) The rate of inflation is 10%.

(b) The interest rates the FSA charges on loans is 2.5% per month flat for a loan with a 6 month maturity, plus a commission of 1% of the loan amount. The current market rates being charged by the existing FSAs is 2.5%-3.0% per month.

(c) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings.

(d) The average growth rate of the loan portfolio is 52%, although on a declining trend.

(e) The loan loss reserve is 3% of the gross loan portfolio outstanding.

(f) The FSA will be able to borrow up to the limit of its paid-in share capital from the AFF. The borrowings will incur an interest charge of 12%.

Projections

Bum FSA						
	Un Adudited	Projections				
Profit & Loss	Sep-12	**2012**	**2013**	**2014**	**2015**	**2016**
Income	**Actual**					
Income from Loan	6,505,300.00	16,104,214.91	66,861,416.15	115,952,111.69	150,511,789.46	195,211,491.99
Income from Fees and charges	8,301,900.00	1,496,899.86	5,398,204.22	14,893,280.49	28,426,922.51	46,498,246.29
Total Income (A)	**14,807,200.00**	17,601,114.77	72,259,620.37	130,845,392.17	178,938,711.97	241,709,738.28
Expenditure						
Personnel Expenditure (B)	**16,813,667.00**	**25,613,667.00**	**54,450,000.00**	**60,258,000.00**	**84,433,800.00**	**101,763,420.00**
Salary & Wages	16,813,667.00	22,313,667.00	49,500,000.00	54,780,000.00	76,758,000.00	92,512,200.00
NASSIT		3,300,000.00	4,950,000.00	5,478,000.00	7,675,800.00	9,251,220.00
Financial Expenditure (C)	**529,295.00**	**7,479,363.77**	**12,992,823.31**	**20,781,167.97**	**26,342,649.12**	**31,747,624.33**
Loan Loss Provision	529,295.00	1,806,663.77	5,051,043.31	9,662,675.97	12,542,649.12	16,267,624.33
Interset Paid on Loans		5,672,700.00	7,941,780.00	11,118,492.00	13,800,000.00	15,480,000.00
Administrative Expenditure (D)	**11,669,063.49**	**20,958,126.98**	**38,874,650.95**	**40,782,460.95**	**57,087,745.18**	**60,796,630.38**
Board Sitting Fee & Allownaces	1,700,000.00	2,100,000.00	2,310,000.00	2,541,000.00	2,795,100.00	3,074,610.00
Motor bike Running Cost	2,700,000.00	3,600,000.00	3,960,000.00	4,356,000.00	4,791,600.00	5,270,760.00
Motor Bike Repair Cost		720,000.00	792,000.00	871,200.00	958,320.00	1,054,152.00
Stationary	2,877,000.00	5,754,000.00	3,962,670.00	4,715,000.00	7,521,000.00	9,616,100.00
Service Fee Paid to TAA		-	-	-	12,138,400.23	12,138,400.23
Generator Running Cost			1,248,000.00	1,622,400.00	2,109,120.00	2,741,856.00
Generator Repair Cost			249,600.00	324,480.00	421,824.00	548,371.20
Depreciation	4,392,063.49	8,784,126.98	26,352,380.95	26,352,380.95	26,352,380.95	26,352,380.95
Total Expenditure (E=B+C+D)	**41,210,383.98**	54,051,157.76	106,317,474.26	121,821,628.93	167,864,194.30	194,307,674.71
Net Operating Income (F= A-E)	**(26,403,183.98)**	(36,450,042.98)	(34,057,853.89)	9,023,763.25	11,074,517.67	47,402,063.57
Grant Income (G)						
Grant Income - Operating Cost (G1)	24,090,667.00	37,787,667.00	66,972,270.00	74,688,080.00	-	-
Grant Income - Share Capital/ Loan (G2)		-	-	-	-	-
Total Income F+G1+G2	(2,312,516.98)	1,337,624.02	32,914,416.11	83,711,843.25	11,074,517.67	47,402,063.57

	Un Audited	Projected				
Balance Sheet	**Sep-12**	**2012**	**2013**	**2014**	**2015**	**2016**
Asset	**Actual**					
Cash and due from Banks + Net earnings and GI	6,794,601.00	10,208,332.10	25,665,694.15	17,553,400.38	13,926,088.17	13,583,344.49
Safe keeping	4,736,000.00	4,972,800.00	5,221,440.00	5,482,512.00	5,756,637.60	6,044,469.48
Net Fixed Asset	245,807,936.51	237,859,880.95	225,519,761.90	221,179,642.86	202,169,880.95	195,360,119.05
Gross Fixed Asset	250,200,000.00	250,200,000.00	250,200,000.00	260,200,000.00	260,200,000.00	272,400,000.00
Accumulated Depreciation	(4,392,063.49)	(12,340,119.05)	(24,680,238.10)	(39,020,357.14)	(58,030,119.05)	(77,039,880.95)
Net Loan Portfolio	52,400,205.00	58,415,461.98	163,317,067.09	312,426,523.16	405,545,654.94	525,986,520.09
Loan Portfolio	52,929,500.00	60,222,125.75	168,368,110.40	322,089,199.13	418,088,304.06	542,254,144.42
Loan Loss Reserve	(529,295.00)	(1,806,663.77)	(5,051,043.31)	(9,662,675.97)	(12,542,649.12)	(16,267,624.33)
Other Assets						
Total Assets	**309,738,742.51**	**311,456,475.03**	**419,723,963.14**	**556,642,078.39**	**627,398,261.66**	**740,974,453.11**
Liabilities						
Safe Keeping	4,736,000.00	4,972,800.00	5,221,440.00	5,482,512.00	5,756,637.60	6,044,469.48
Loan from AFF	9,986,068.00	9,986,068.00	66,181,500.00	92,654,100.00	115,000,000.00	129,000,000.00
Other Liabilities	4,154,191.49					
Total Liaiblities	**18,876,259.49**	**14,958,868.00**	**71,402,940.00**	**98,136,612.00**	**120,756,637.60**	**135,044,469.48**
Equity						
Share Capital	42,975,000.00	47,272,500.00	66,181,500.00	92,654,100.00	129,715,740.00	181,602,036.00
Share Capital-Fixed Asset Grant	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00
Retained Earnings (Current Year)	(26,403,183.98)	(36,450,042.98)	(34,057,853.89)	9,023,763.25	11,074,517.67	47,402,063.57
Retained Earnings (Previous Years)		(26,403,183.98)	(62,853,226.97)	(96,911,080.86)	(87,887,317.61)	(76,812,799.94)
Donated Equity (Current Year)	24,090,667.00	37,787,667.00	66,972,270.00	74,688,080.00	-	-
Donated Equity (Previous Year)		24,090,667.00	61,878,334.00	128,850,604.00	203,538,684.00	203,538,684.00
Total Equity	**290,862,483.02**	**296,497,607.03**	**348,321,023.14**	**458,505,466.39**	**506,641,624.06**	**605,929,983.63**
Equity + Liabilities	**309,738,742.51**	**311,456,475.03**	**419,723,963.14**	**556,642,078.39**	**627,398,261.66**	**740,974,453.11**
	-	-	-	-	-	-

78. The above projection is based on an FSA that opened in early 2012. It shows that the FSA will access the AFF almost immediately to progressively increase its loan portfolio quite sharply, with it rising by 180% in year 2 (2013), 92% in year 3, and thereafter the rate of growth slowly declines to 30%% in year 5 (2016). The funding resulting from the reimbursement of the operating costs under RFCIP2 also provides considerable liquidity, Le. 142 million, for financing the increase in the loan portfolio in 2013 and 2014. The loan loss reserve, at 3% of the gross loan portfolio, is set to reflect the possibility of relatively modest loan losses being incurred due to the high level of members' own capital at risk and increased training of staff. With the large majority of loans being less than Le. 1.5 million (USD 350), by year 3 (2014) the FSA will be extending more than 400 loans annually to IFAD demographic clients. By year 5, this will have increased to more than 1,400 6 month loans of USD 350 each, or even more if the loan amount is smaller.

79. The FSA also gains income leverage from the relative fixed nature of its operating costs, which in most cases are forecast to rise in line with inflation, excluding the payment of fees paid for services from the APEX. There will be incremental staff employed in year 2 (2013) to help manage the increase in the loan portfolio. Running costs on the generator also are projected to be quite high.

80. The ROA and ROE ratios are projected to improve steadily over time, increasing from 1.62% and 1.97% in 2014 (the first year of operational sustainability), to 6.4% and 7.8% in 2016. This provides the opportunity for the FSA to consider declaring dividends to shareholders from 2016 onwards. The narrowness in the spread between the respective ratios is due to the conservative leverage/gearing built into the model. This is essential to members retaining ownership of the FSA, and to be in accordance with prudent banking practices.

81. Sensitivity analysis indicates that the margin of error in the operational sustainability in year 2 is reasonable. If administrative expenses increase by 20% in that year, the FSA remains operationally sustainable. Concurrently, the loan loss provision could increase by 90% and the FSA still would be profitable. This margin steadily becomes more robust. By 2016, the administrative expenses, excluding fees paid to the APEX could increase 80% and operational sustainability still would be retained. Similarly, the loan loss provision could increase more than 150% before the FSA would be in a loss making position.

82. The above analysis indicates that an FSA can become quite profitable providing a reasonable range of services, while remaining under the ownership and control of its local members. The inclusion of additional services, such as acting as an agent for a CB would further broaden the range of services provided, and increase its operational sustainability.

Sub-component 1.2: promotion of agricultural financial products

83. The limited lending to agricultural sector activities and subsequent impact on agricultural development as outlined earlier, highlights the need to promote and make accessible, agricultural financial products. RFCIP2 seeks to help meet this shortcoming through the AFF and through increasing the capital of the CBs. These investments will contribute to the economic and social development of rural communities, by facilitating the provision of affordable, efficient and demand-driven financial products and services that meets the needs of the poor and rural agricultural sector. The capital increase and AFF should serve to increase the number of CB clients and FSA shareholders receiving loans; effectively, the number of incremental loans made over the life of RFCIP2 to FSA and CB shareholders could exceed 175,000.

84. **The Agricultural Finance Facility (AFF)**. The rationale for establishing the AFF specifically for agriculture lies in the expressed high unmet demand by smallholder farmers for credit. The limited interest by commercial banks to invest in agriculture, and the lack of outreach by other interventions that have sought to extend financial services to the rural poor makes the advent of

the CB/ FSA proximity network under RFCIP/RFICP2 a very appropriate channel to meet this demand for credit. The AFF is designed to meet this need.

85. Based on the demand expressed by the target groups, three agricultural loan products have been identified as priority products for the the AFF: i) agricultural campaign loans; ii) agricultural rehabilitation loans; and iii) agricultural equipment/ processing loans[33]. Agricultural loan policies and procedures are being developed which provide guidelines on the loan purpose, target market, eligibility criteria, loan size, loan period, collateral requirements, interest rate and repayment terms and associated fees.

86. Generally, agricultural loan products will serve to provide financing to agricultural sector operators for working capital, inputs, small farm tools and equipment, rehabilitation of tree crops, and processing equipment (including construction of installation sites).

87. In the effort to channel financing to smallholder farmers, who are the immediate target group, generating a critical mass from the first year is essential. An important assumption that has been made based on field observations and an assessment of the needs of the immediate target group is that farmers are demanding on average Le 1,500,000 (approximately US$ 350) for agricultural campaign loans. While the full amount of the AFF and the outside investment in the capital of the CBs are required by law to be in funds at the time of registration of the APEX and the CBs the drawdown from these funds will be dictated by prudent guidelines and best banking practices. Thus the AFF is not anticipated to be fully drawn down until the third year of RFCIP2. Of all of the loans extended, though, approximately 60% is expected to be directed to campaign loans, 20% to rehabilitation and the remaining 20% to equipment/ processing loans. This being the case, approximately 10,000 loans will be disbursed from the AFF in the second year. It will be essential that the impact of these loans on agricultural production and productivity is well monitored and documented.

88. An analysis of the loan disbursement and repayment suggests that by year 9, the total loans disbursed from the AFF will be approximately USD 38,000,000. The projected number of cumulative borrowers who had accessed to campaign loans from the AFF would be approximately 94,000 (assuming no double borrowing).

89. **AFF investment guidelines**. A set of guidelines will be developed to provide instruction and guidance to the APEX, as well as to the participating RFIs (CBs/ FSAs), in the AFF's implementation on the operational modalities, rules and regulations. These guidelines will outline: eligibility criteria and procedures for selection of the participating institutions, a general description of the AFF refinancing activity, sub-project eligibility criteria for the different types of agricultural loan products, and the principal terms and conditions of AFF financing. Guidelines also will be included for loan approvals and disbursement procedures, accounts and audit arrangements, follow-up monitoring and reporting, loan recovery, reporting, and environmental standards.

90. **Management of the AFF**. Based on the TAA/ APEX's demonstrated capacity, its experience in managing the RFF pilot, and its contribution in achieving the strong results of RFCIP1, the TAA/APEX will administer and manage the AFF on behalf of MOFED and the external investors. Effective management of the AFF is also largely assured by the existing staff within the TAA/APEX that have been competitively recruited under performance/results-based contracts. All professional staff in the TAA are former bankers from the private sector, who have been applying best practices to the CB and FSA models (thus resulting in PaR >30 days of 3% for newly established FSAs, for example) and who have developed the necessary tools, manuals, and methodologies that support RFCIP.

[33] Average loan size are: agricultural campaign loans – US$ 350; rehabilitation – US$ 500; equipment/ processing loans – US$ 3000

91. The APEX will sign an MoU with MOFED and with the external investors for managing and administering the facility. The APEX will not receive direct payment from the project for administering the AFF, rather it will generate revenue through the interest charged on loans to the participating CBs and FSAs in the first 3 years.

92. *The AFF interest rate*. The interest rate to be charged on loans by the AFF to the participating RFIs is based on the need for charging a "real" interest rate, and the necessity for the RFIs to earn enough interest "spread" on the loans they make so as to become operationally sustainable. Simultaneously it must ensure that the interest rates charged to the small farmers do not exceed the competitive rates already on offer. Concurrent with this is the need to create a sustainable rural finance network, following best practices, within a relatively short period of time. Furthermore, external investors have indicated that they are prepared to invest at the inflation rate plus a 2% spread. Based on these factors, it is proposed that the AFF will lend at an annual variable rate of the Sierra Leonean inflation rate plus a 2% spread, to be adjusted annually. Interest will be payable quarterly. Thus the immediate rate would be 12%. This rate matches the market rate at which external parties are prepared to invest, it is a "real" interest rate and has a reasonable risk premium of 2%. In turn the CBs and the FSAs will lend at their existing rates respectively of 30% flat plus a 2% commission and 2.5% flat plus a 1% commission respectively for 6 month loans. These rates represent the existing market rates and allow for the RFIs to build up their capital reserves and gain operational sustainability relatively quickly. Given the large un-served demand for loans, it seems that the IFAD client demographic are prepared to pay these rates, and they are far cheaper than the only alternative in remote rural areas, namely the money lenders who charged 10 times this rate. Furthermore, these end interest rates will enable the FSAs and the CBs to pay a higher rate of interest/dividends to their members/savers, thereby providing a fair balance between savers and borrowers and encouraging more rural dwellers to save with their local RFI. Should the market rates for interest decline, and inflations falls, these rates would be reconsidered.

93. The participating CBs/FSAs will enter into MoAs (loan agreement) with the APEX, which will define, amongst other matters, the loan agreement itself, general provisions, disbursement, repayment and interest rates, execution of the scheme, and dispute resolution. To ensure transparency and accountability, the AFF will be audited on a yearly basis.

94. By the end of the project, **the exit strategy of the AFF** will be its transformation into a revolving fund, to be called the Agricultural Development Fund (ADF) that will be dedicated to short, medium and long-term loans for Agriculture. This Fund will be managed by the APEX under supervision of the MODEF,MAFFS and the external investors. The ADF will become a permanent strategic tool to stimulate agricultural development, through smallholder farmer-oriented credit. Should the AFF not be needed by the end of RFCIP2, it could be dissolved and the funds used to buy back shares from the external investors.

95. A separate, independent Steering Committee will be established to provide general oversight for the AFF and the ADF.

96. **The Capitalisation of the Community Banks.** Under RFCIP1, the BOSL, in an effort to encourage the programme to invest in the CBs, and to enhance outreach, waived the minimum capital requirements for the establishment of CBs. With the pending closure of RFCIP1 and its evolution into RFCIP2, the BOSL has now decided that all CBs will now have to meet the minimum capital requirements of Le. 1,000,000,000. This will entail in addition to the capitalisation of fixed assets, a further capital injection of about USD 120,000 into the existing CBs, and USD 170,000 in liquid assets into the proposed start-up CBs, amounting to approximately USD 3,000,000. This share capital will be funded by external investors in the form of shares. The voting rights on these shares will be limited, so that the local shareholders retain the voting majority and, therefore, control over the CB. This external capital will receive a dividend pay-out equal to 12% p.a.; starting in year 4.

97. The external investor will enter into a MoU with the APEX, which define all the terms and conditions of the arrangement. The **exit strategy** for the external investor in the APEX will be subject to the MoU and likely will take the form of the APEX buying back the shares from the investor, and/or the investor making a private sale to another external investor. Similarly, the exit strategy for the APEX from the CB will be for the CB to buy back the shares, or to find another investor to purchase the shares from the APEX.

98. Expected results of component 1:

- Autonomous APEX providing sustainable services to CBs and FSAs;
- 22 CBs operational with a PAR >30 days below 5% and are operationally sustainable by year 3;
- 65 FSAs are operational (and attain operational sustainability by year 3), with possible linkages to CBs;
- FSA membership increased to cover 35% of the communities;
- Increase in agricultural production as funds become available to provide agricultural loans;
- About 170,000 loans being made to participants through an expanded rural financial system over the lifetime of the programme
- About 50% of those reached would be women and youth;
- The GALs system introduced with attendant benefits for the families.

Component 2: Programme management and coordination

99. 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 programme management, and into the activities of the NPCU. The performance indicators of this component will include quality and timely execution of annual work plan and budgets, the punctual submission of progress reports and annual audit reports. An operational M&E system able to document key indicators and actual levels of disbursements against planned outlays will be established. Details of the component are provided in and Annexes 5-8. As relevant, all data will be segmented by gender and age.

100. Since much of the NPCU-related costs are covered under existing programs, RFCIP 2 will finance only the incremental costs.

101. Project costs provide for meeting the expenditures of the NPCU. Additionally, selected studies will be funded, including the base line survey and impact studies of CBs, FSAs and the APEX, and audits. Furthermore, studies to develop special purpose instruments for developing markets, such as long-term loans and for lending for poverty programmes will be supported.

102. Finally, this component also seeks to reinforce policy dialogue and exchange on rural finance, including gender issues, particularly through institutional support to the BOSL in terms of capacity building and policy review. This will include both training and assistance in implementing international regulatory and oversight standards, as well as vehicles and computers to strengthen their oversight capacity.

103. The expected results of this component are:

- Establishment of an effective M&E system;
- Policy dialogue for promotion of the rural finance agenda.

104. **Innovative features of the programme**. RFCIP2 builds on the innovative features of RFCIP1 and broadens their outreach. Most notably it will bring in private sector investment into agricultural financial services and will broaden the range of services to be provided. By taking this approach, it reduces the amount of risk capital IFAD otherwise would have had to outlay for the programme, and will better link the small participant owned entities, such as the FSAs, with the formal financial sector. Based on the successful implementation of the programme, the

major innovation will be that rural lending in Sierra Leone can be a profitable activity, and as such will encourage more private sector investment in rural banking services.

Note: The following can be found in the Working Paper:

- An extract of the APEX Business Plan
- Draft AFF Investment Guidelines
- Sample Subsidiary Loan Agreement between APEX and RFI
- Draft Agricultural Credit Policy and Procedures Manual

Appendix 5: Institutional aspects and implementation arrangements

1. **Programme oversight**. Overall programme oversight will be undertaken by a Programme Steering Committee (PSC), which will be co-chaired by the Ministers of MAFFS and MOFED, and includes the Minister of MOTI, and representatives from both donors and participating financial institutions to ensure an inclusive and harmonised approach to rural finance in Sierra Leone. The committee, which will have the NPCU as its Secretariat, will be responsible for providing overall policy guidance, and the NPCU per se will monitor the implementation of the decisions made by the Steering Committee.

2. The main responsibilities of the PSC would be to:

   - Provide conceptual, strategic and political guidance to the NPCU for programme design, implementation and coordination of programme activities, including, if necessary, the formulation of development and implementation strategies;
   - Ensure overall conformity with Government policies and strategies;
   - Review programme progress and performance;
   - Approve the Annual Work Programme and Budget (AWPB) of the entire Programme portfolio;
   - Resolve any implementation problems and/ or conflicts; and
   - Assist the NPCU in obtaining, as may be required, Government assistance and contribution to the programme.

3. **MAFFS and MOFED**. As with the RFCIP1, the Ministry of Agriculture, Forestry and Food Security will be the lead implementing agency with overall responsibility for RFCIP2. In view, however, of the substantial investment into the RFCIP2, MOFED will be a critical and key strategic partner.

4. MAFFS will delegate the functional and day-to-day implementation and coordination responsibilities for the overall programme to the on-going NPCU responsible for IFAD-financed projects.

5. With specific reference to the AFF, a MAFFS/MOFED partnership will delegate management and administration responsibility to the APEX Bank (APEX) as the key service provider/ implementation partner. Given the importance of the AFF, an AFF Steering Committee (separate from the Programme Steering Committee) chaired by MOFED will be established to provide oversight. Members of the committee will include: MOFED, MAFFS, CB representatives, FSA representatives, farmer organisations, NAFFSL, and other private-sector representatives from the rice, cassava and tree crops sub-sector; effectively, the composition of this steering committee ensures that the voices and interests of the different stakeholders are heard, and have technical input. The establishment of the Committee is critical, especially in the effort to ensure that the AFF becomes a sustainable mechanism that evolves into the Agricultural Development Fund administered by the APEX even after project completion.

6. **BOSL**. BOSL continues to hold overall oversight responsibilities for supervising/ inspecting and auditing the CBs and the APEX, ensuring their compliance with the regulatory environment. However, with the expanding network of CBs, and given the positive experience gained through the RFCIP1, BOSL will rely on the APEX to undertake the some collection and forwarding responsibilities for the participating CBs. This could include checking and forwarding their regulatory reports while the BOSL retains overall responsibility for the regulation and oversight of the CBs[34]. The BOSL, though, will undertake direct regulatory reviews of the CBs at its

[34] At this time the BOSL does not have regulatory oversight over the FSAs, since they do not mobilise deposits from the general public. This could change, though, if the BOSL considers them to be a systemic risk to the banking system.

discretion. As an additional measure to safeguard quality standards, the BOSL will also have the responsibility of providing approval for the final appointment of the APEX Managing Director and new APEX senior staff. A results-based MoU will be established between BOSL and the APEX to outline these arrangements; it is further expected that upon project completion, these same arrangements will continue.

7. **NPCU**. The National Programme Coordination Unit plays a key role in project implementation, with a mandate that consists of coordinating programme activities, managing programme resources and monitoring programme operations; its evaluation function is of particular importance. Specific responsibilities of the NPCU include:

- Overall planning, supervision, monitoring and coordination of all project activities;
- Overall guidance in relation to project implementation, including formulation of necessary development and implementation strategies;
- Preparation and consolidation of the Annual Work Plan and Budget;
- Co-ordination and consolidation of periodic reports from implementing partners;
- Logistical, administrative and technical backstopping to implementing partners and agencies;
- Co-ordination of technical and financial audits;
- Keeping linkages with beneficiaries;
- Establishing and maintaining linkages with other relevant government ministries; donor institutions and all service providers;
- Contracting out various project activities with implementing partners and technical assistance experts that would be selected through competition where required;
- Monitoring progress of project activities and evaluating performance of the different contractors;
- Assessing loan purposes and the environmental impact of the various categories of economic activities (note that the Programme would establish a 'negative list' of loan purposes, which would not be eligible for support due to their potential negative impact on the environment);
- Carrying out financial management and procurement of goods, works and services in accordance with procurement plans;
- Operating the M&E (MIS and GIS) systems;
- Reporting regularly to the development partner (IFAD) and the executing agency (MAFFS) on the projects' financial situation, physical progress and problems faced.

8. The present NPCU, which has successfully administered RFCIP1 and RCPRP, will continue to implement this second phase of the programme. As per past practice, in order to undertake its responsibilities and activities, the NPCU will sign an MOU with the Ministry of Agriculture, Forestry and Food Security (MAFFS) to act on its behalf.

9. Given the partition of responsibilities with the APEX (described below), emphasis will be placed on the general supervision and M&E function of the NPCU.

10. **The APEX**. As indicated, the APEX is the key service provider with responsibility for oversight of the CBs and FSAs, and for administration of the AFF and the capital investments in the CBs. In addition, the APEX provides a range of technical support and assistance services. To carry out its tasks, the APEX will enter into **results-based** contracts (MoUs); for:

(i) Audit and oversight of CBs/FSAs: A MoU will be signed with the BOSL, giving the APEX delegated authority to collect and review the regulatory returns prior to forwarding them to the BOSL. The APEX also will also report on the financial performance of CBs/FSAs and the AFF to all interested parties, including MAFFS MOFD, and IFAD. This will be an on-going arrangement.

(ii) Technical assistance and support for consolidation of the rural finance system of CBs/FSA via a MoU with the NPCU. This will be an annual contract, which is based on the APEX's Business Plan and on its Annual Work Plan and Budget (AWPB). Through this arrangement, the APEX itself will evolve to become an operationally self-sufficient entity, providing the key support services to existing CBs and FSAs as they move towards operational sustainability, and towards establishing the new CBs/FSAs. As part of its responsibilities, the APEX also will be responsible for supervising its capital investments in the CBs. This will include the dividend payments as and when they fall due. Simultaneously, it will make dividend payments to the outside investors in the APEX as and when those dividends are scheduled to be declared.

11. As per the above arrangements, the APEX will be responsible for reporting to MAFFS/MOFED, BOSL, the external investors in the APEX and the NPCU. As a key service provider with expanded responsibilities, the status of the APEX registration under the Other Financial Services Act needs to be assured prior to project commencement

12. **Community Banks**. As foreseen, Community Banks will benefit from programme support through the investment of capital. The APEX will invest in the CBs through a nominee arrangement on behalf of the external investors based on agreement between the two parties. The CB will enter into a Subsidiary Investment Agreement with the APEX, which will outline principles and terms of the capital injection. A similar agreement will be drawn up to cover access to the AFF by the CBs.

13. With regards to the new CBs to be established under RFCIP2 financing, they will enter into a results-based MoU with the APEX for both capital and AFF access on the basis of their Business Plans, which is a pre-condition to receiving project support.

14. With regards to the AFF, the AFF Investment Guidelines will outline the eligibility criteria and procedures which will be used to govern CBs' access to the facility. The participating CB will enter into an MoA (loan agreement) with the APEX, which will define amongst other things, the loan agreement itself, general provisions, disbursement, repayment and interest rates, and principles for execution of the scheme.

15. In order to instil the importance of self-sufficiency and sustainability, APEX services to CBs will be fee-based under the RFCIP2 after two years. Fees will be charged to CBs by the APEX for audit and inspection, MIS, technical assistance, management, training and other services.

16. **FSAs**. As with CBs, the same contractual arrangements for fee-based services and access to the AFF apply to the FSAs.

17. Strategic partnerships. In addition to the key institutions involved directly in programme implementation, strategic partnerships with private sector actors and key donors will be pursued.

The 3-phased approach

18. Provided that institutional building takes time, a longer term programme of 9 years would be appropriate, to be implemented in three phases and which is conditional on key indicators that will trigger advancement to the next phase.

19. The three-phased approach allows for a progressive monitoring of the level of autonomy of the rural financial institutions and implementation of the exit strategies. It is important to note that the programme's support (and the duration of support) to the financial institutions are conditional on business plans, are performance and results-based, and which will be reflected in the Memoranda of Agreement between the project and these institutions.

20. The nine year project will have two interim reviews, one in year three and the other at the end of year six. For the first review, the objective will be to assess the performance and maturity of FSAs and CBs (given that most have been operating for a few years); the second review (in year six) will concentrate on assessing the performance of the APEX given the expectation that

it should be operating autonomously after 3 years. An evaluation of the impact of the AFF on poverty and agricultural development will take place during both reviews. Overall, it is expected that all institutions (FSAs, CBs and the APEX) will have reached operational self-sufficiency by year four of the programme.

Years	Activities and indicators of maturity
1 – 3 **(Phase I)**	- Consolidation/ finalisation of the network (incl. establishment of new FSAs and CBs) - Status of CBS/ FSAs: 1/3 are autonomous and ready to implement the exit strategy; testing of agricultural financial products - Status of the APEX: OSS reached by Yr 2 Yr 3 **interim review** to assess: maturity level of CBs and FSAs (to reach OSS within 4 and 3 years respectively); and impact of AFF and capitalisation of CBs on i) poverty, ii) agriculture, and iii) the level of the APEX's autonomy; assess as well the impact of AFF and capitalisation of CBs on FSAs and CBs, and on IFAD's demographic clients
4 – 6 **(Phase II)**	- Status of APEX: OSS reached in year 2; project to withdraw support from APEX - CBs assess FSA performance and health; continue financing based on assessment Yr 6/7 **interim review** to assess: APEX maturity/ autonomy; review performance of CBs/FSAs; and impact of AFF and CB capitalisation on i) poverty and ii) agriculture *Target: all institutions should have reached OSS by Yr 4*
7 – 9 **(Phase III)**	- Conclusion of programme financing to APEX/CBs/FSAs - Limited financing available to NPCU to carry out programme coordination and management (general supervision and M&E) - Limited financing available for specific studies

Project preparatory phase

21. **Project Start-up Phase**. To facilitate a prompt start-up, the NPCU will continue day-to-day management of the on-going RFCIP1, which will allow for the undertaking of preparatory activities before and after signature of the financing agreement, up to the first project disbursement. Resources have been allocated for part of this process. The preparatory activities will be coordinated from existing funding. Preparation activities will be monitored by a committee including representatives of MAFFS, MOFED, etc. Activities will include recruitment, systems and procedures development, and launching of early tenders and studies. The NPCU coordinator will manage these activities.

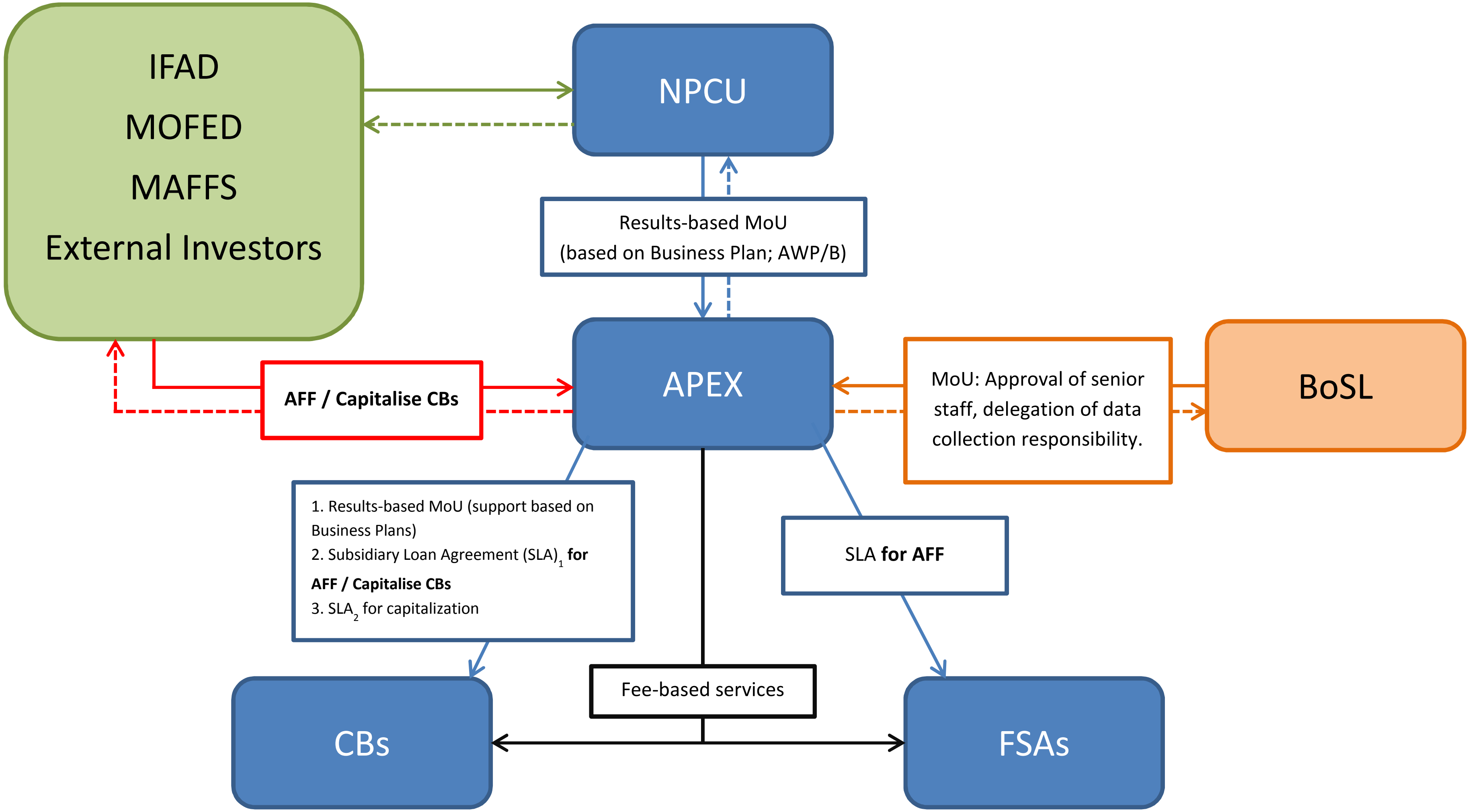
22. **IFAD start-up support**. To improve start-up and early programme performance, IFAD will support a three to five day facilitated start-up workshop where the programme team and implementing agency staff will work together to understand the programme design documents and develop a full and common understanding of the programme. This activity is reinforced by the participation of government and NPCU staff in the design mission, particularly towards instilling greater ownership in the design process and in the programme itself.

23. During start-up, the roles, responsibilities and accountability of all implementers will be clarified and agreed. Their capacities will be assessed and matched with required skills so that capacity development plans are developed. Feedback mechanisms will be developed to enable quick decisions on what to adapt and improve in a flexible output-oriented manner. The workshop will be followed up by on-going coaching during the first year of implementation.

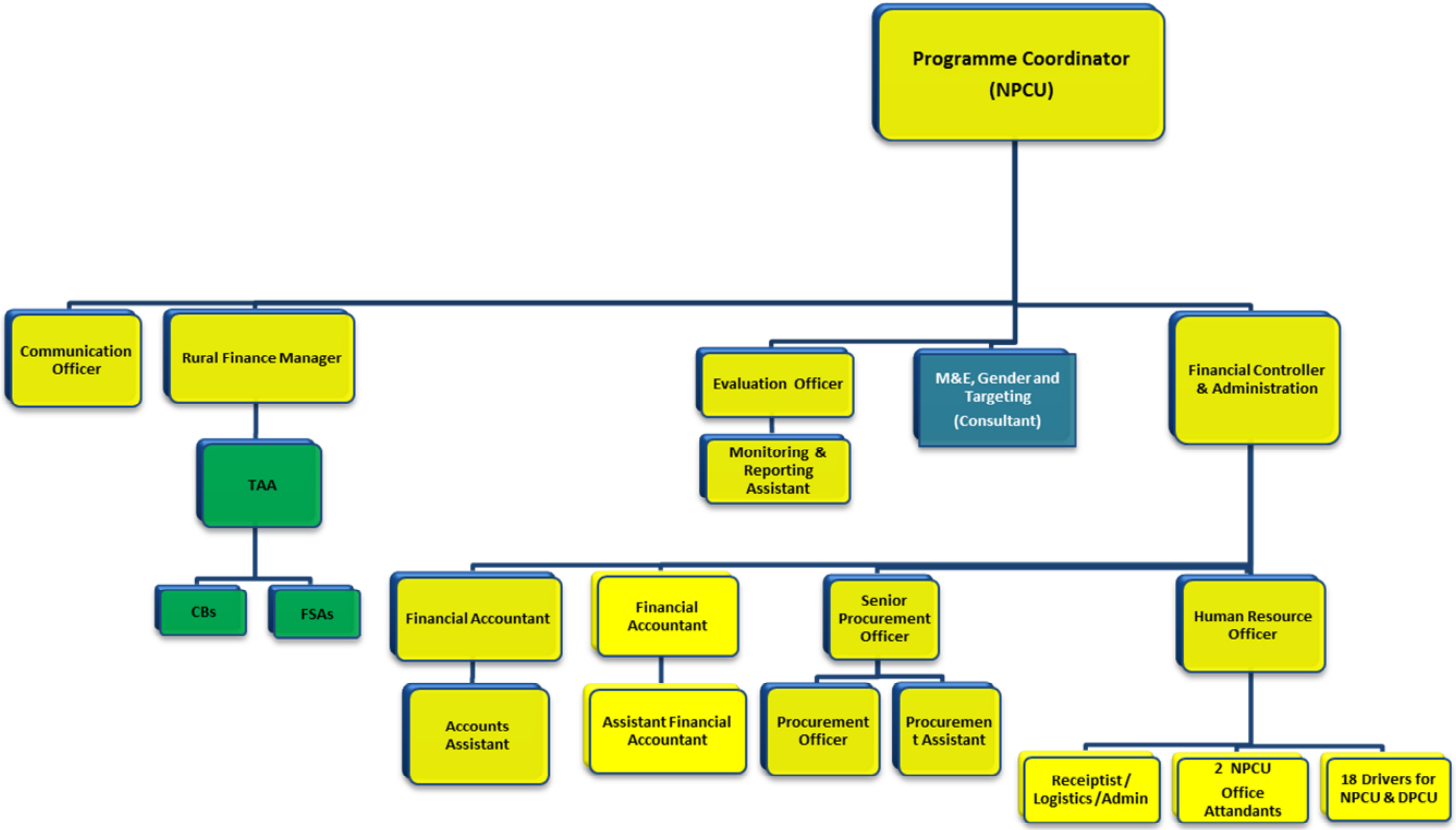
24. **Conditions for disbursement.** The following conditions need to be met in order for IFAD to make the first disbursement of programme funds:

- The first AWPB receives IFAD's no-objection;
- MAFFS opens the RFCIP2 Designated Account in USD and the RFCIP2 Operations Account in Le in a commercial bank acceptable to IFAD;
- A revised draft of the RFCIP2 programme implementation manual is submitted to IFAD;
- The appointment or recruitment of the APEX Managing Director;
- Preliminary approval from the BOSL is received for the registration of the APEX under the OFS Act, 2001.
- Establishment of the MoU between the BOSL and the APEX;
- TAA/APEX has strengthened its accounting capacity and internal controls through a modified internal audit function;
- TAA/APEX has properly configured its accounting systems to meet IFAD's standards;
- TAA/APEX has developed a draft Financial and Administration Manual;
- The APEX opens three accounts for i) the AFF ii). the capitalisation of the CBs, and iii) other operations; and
- The AFF Steering Committee and Programme Steering Committee are established.

Appendix 5.1: Schematic overview of the RFCIP2

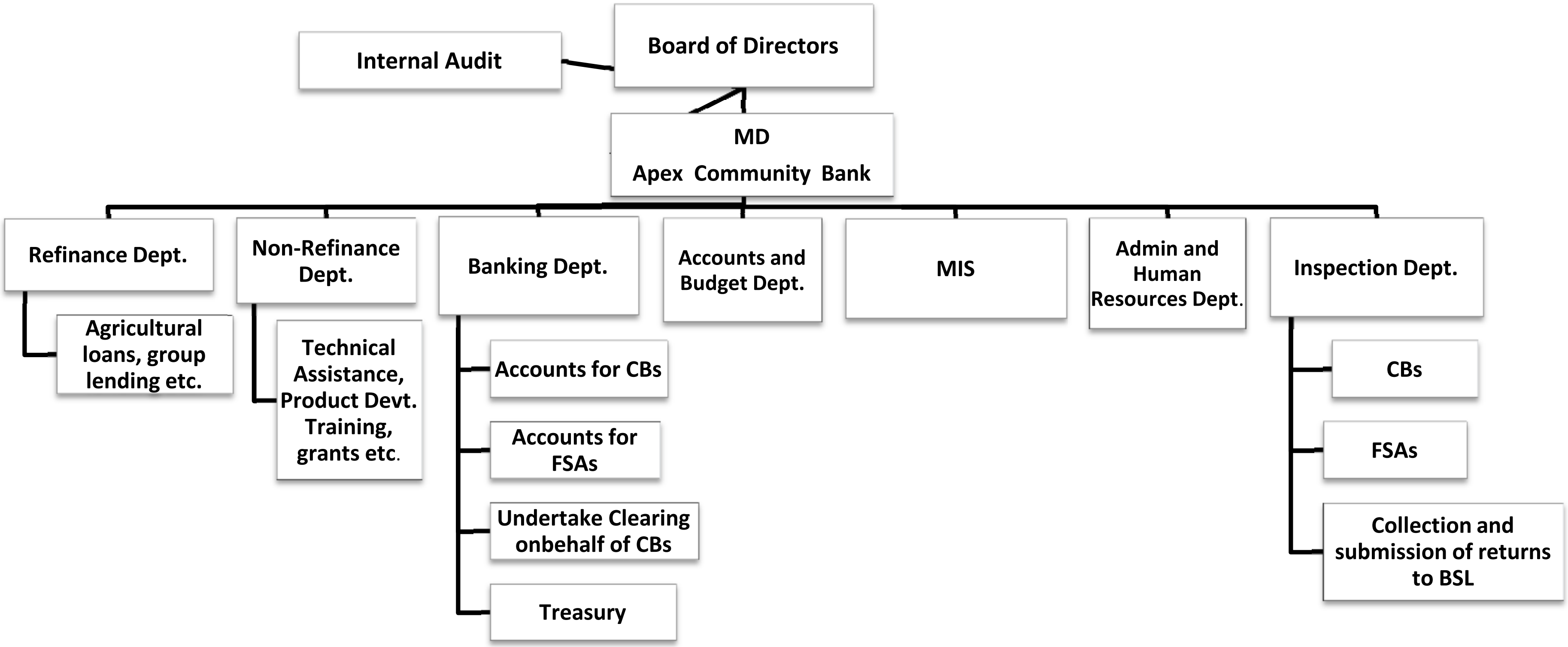


Appendix 5.2: Organigramme of the NPCU (under RFCIP)



N.B. Under RFCIP2, the TAA/APEX will become its own legal entity, separate from the NPCU.

Appendix 5.3: Proposed APEX organigramme



Appendix 5.4: Draft job descriptions

Position: APEX Managing Director

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes CB and FSA Inspection, managing the Agricultural Finance Facility, investing in CBs, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in Sierra Leone.

2. Job purpose

Under the overall supervision and strategic, policy and management guidance of the Board of Directors, the incumbent will be responsible for managing the agency's programme(s) as assigned by the BOD. He/She will report directly to the Board of Directors on strategic and operational issues related to the assigned responsibilities, and will provide administration and management support to the Head office and Sub-regional office in Makeni, Bo and Freetown.

3. Duties and responsibilities

The incumbent will be required to:

- Manage the day to day operations of the APEX in accordance with its mission, values and goals. Utilize effective and efficient networks to maximize outreach, resources and profits within the framework of approved budgets. This will include overseeing the management of the Agricultural Financing Facility and the capitalisation of the community banks;
- Develop objectives through short and long term strategic planning. Set annual performance targets with a focus on profitability, quality, and efficiency;
- Institute performance and monitoring systems. Evaluate progress against business plans, budgets, best practices and CBs & FSAs Network standards. Provide appropriate appraisals and feedbacks as and when required;
- Motivate, nurture, and develop staff. Encourage, and mentor staff to perform their assigned duties promptly and efficiently. Promote an atmosphere of teamwork, encouraging a culture of equity and sensitivity to gender, class and other differences;
- Ensure operation's compliance with internal control and regulatory policies, procedures and systems. Recommend appropriate changes to policy, procedures, and processes to ensure application of sound credit and risk management policies;
- Support the establishment of effective business development, marketing, sales and client service strategies and approaches;
- Coordinate feasibility studies for the establishment of CBs and FSAs

- Carry out, in collaboration with the management team, the recruitment and training of CBs, FSAs and APEX staff in accordance with the training guidelines and plans
- Attend APEX Board Meetings as an ex officio member, presenting progress and other reports
- Coordinate with various funding/ donor/ investment agency as a focal point person
- Coordinate the networks of CBs & FSAs
- Perform any other duties as assigned by the Board of Directors

4. Professional requirements

Education and experience

- Minimum requirement is an advanced university degree (Master's level or equivalent) in finance, economics, business, or a closely related field.
- At least 10 years of relevant post qualification professional experience with International Financial Institutions, rural development/financial institutions, international NGOs, rural finance and market development.
- Good knowledge of policy oriented, programme based pro-poor approaches;
- Previous working experience with Central bank/ Apex Bank organizations will be an added advantage

Technical skills and competencies

- Analytical skills: will have analytical ability and thorough understanding of socio-economic-financial-banking issues as well as the capacity to lead specific analytical work.
- Leader and Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. You will have the capacity of leading teams and inspire them to work together to achieve stretching objectives.
- Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in rural development. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.
- Comfortable with meeting and negotiating with the GOSL and the BOSL at the highest levels.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Must be able to delegate tasks and responsibilities to staff and require them to be accountable for their performance of those tasks.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of APEX, including field assignments and/or rotation within the APEX.

APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English with a detailed separate CV attached.

In the interest of making the most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interviews. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and make a presentation, as well as participate in interviews.

Position: Director - Inspection Department

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Audit & Inspection, managing the Agricultural Finance Facility, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in throughout Sierra Leone.

2. Job purpose

Under the overall supervision and strategic, policy and management guidance of the Managing Director, the incumbent will be responsible for overseeing and monitoring the performance of the CBs and FSAs in accordance with international best practices. He/She will report directly to the Managing Director on strategic and operational issues related to the assigned responsibilities. The core duties of the Inspection Department are to ensure that the CBs and FSAs are operating in compliance with the approved operating and credit manuals as established by the APEX and, for the CBS, that they are in compliance with the BOSL regulations. Additionally the unit will ensure that banking and microfinance best practices are being followed. of supervising and regulating CBs and FSAs.

The unit would be independent of the activities of the other Departments of the APEX.

The onsite inspection reports and off site review of the financials of the CBs and FSAs would be sent to the Managing Director of the APEX after seeking a response from the respective managers of FSAs/CBs regarding the issues raised therein. The reports of the Department are subject to review by the BOSL.

3. Duties and responsibilities

The incumbent will be required to:

- Lead and manage the development and implementation of medium to longer-term strategies for the inspection programmes. This will entail analysis of the dynamics of Generally Accepted Audit Programmes in line with International Audit Standards and strategies in relation with the definition of APEX's value added in this context.
- Lead the design and supervision of inspection programmes assigned by the Managing Director. Support their implementation with a view to maximizing development effectiveness, impact sustainable development results. Analyze relevant information and assist in the periodic evaluation of results achieved by CBs and FSAs.
- Collect and review the required statutory reports from the CBs and forward to the BOSL.
- Play a catalytic role in the development of policies enabling the APEX to advocate for institutional transformation.
- Devise the operating and reporting mechanisms (methods, tools, procedures and reporting) for the APEX and CBs &FSA network.

- Organize and Conduct regular and periodic inspections of the CBs, FSAs and the APEX and submit reports accordingly
- Monitor and inspect the operations of the members through offsite visits of their prudential returns, onsite examination and ensure compliance with banking laws and regulations of Bank of Sierra Leone.
- Perform any other duties as assigned by the Board of Directors.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in Accounting, an ACCA, advanced university degree in accounting an added advantage (Master's level or equivalent) in finance, or a closely related field.
- At least 10 years of relevant post qualification professional experience with a local or International Financial Institution or a renowned audit firm
- Familiarity with the banking environment of Sierra Leone
- Prior experience in similar position will be an added advantage

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of socio-economic issues as well as the capacity to lead specific analytical work.

Leader and Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. He/she will have the capacity of leading teams and inspire them to work together to achieve stretching objectives.

Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in rural development. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English with a detailed separate CV attached.

In the interest of making most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interviews. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and make a presentation, as well as participate in interviews.

Position: Director - Refinance Department

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Inspection, managing the Agricultural Finance Facility, investing in CBs, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in throughout Sierra Leone.

2. Job purpose

Under the overall supervision policy and management guidance of the Managing Director, the Director will be responsible for managing both the agency's loan portfolio and the investment in Community Banks portfolio. This will involve undertaking due diligence on requests for either loans from the Agricultural Financing Facility (AFF) or for capital investments in the Community Banks. Based on this analysis, the Director will make recommendations as to whether an investment should be made and in what amount. Thereafter, the Department will be responsible for monitoring the ongoing performance of the FSA/CB, including undertaking the annual reviews for such investments and loans. The Department also will be responsible for the collection of interest payments and dividends due from the CB/FSA, and will have prime responsibility for collection of any payments in arrears. He/She will report directly to the Managing Director on the strategic and operational issues related to the assigned responsibilities, and will supervise the staff in the Department who report to him/her.

3. Duties and responsibilities

The incumbent will be required to:

- Lead the due diligence reviews for requests by the participating CBs and FSAs for lines of credit under the AFF and make recommendations for such to the Managing Director. This recommendation will include the amount of the LOC and any specific terms and conditions, such as the maturity of the LOC and any collateral requirements. These due diligence exercises will be conducted in accordance with banking and microfinance best practices.
- Lead the due diligence reviews for the investment of capital in the participating CBs, and make recommendations for such to the Managing Director. The recommendation shall include a recommended amount to invest and any measures that the CB should take before the capital is invested. These due diligence exercises will be conducted in accordance with banking and microfinance best practices.
- Lead the annual review of the performance of the CBs and the FSAs who have either borrowed under the AFF and/or have received a capital investment from the outside investor. This will include a review of the financial performance of the rural financial institution (RFI) and comparing its performance against its annual business plan and its peers. The loan portfolio, and the operational systems also will be reviewed. Based on the results of this

annual review, a recommendation will be made to the APEX and to the external investor regarding the future relationship with the RFI.

- Supervise the reviews of the quarterly financial statements of the RFIs and advise the Managing Director of any marked deviations from the original business plan, or recent trends, and suggest possible corrective actions.
- Undertake special assignments as delegated by the Managing Director.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in Accounting or Finance. An advanced university degree in Finance or Business (MBA, or MSc) or a Degree from a recognized Institute of Bankers or a closely related field.
- At least 10 years of relevant post qualification professional experience with a local or International Financial Institution.
- Familiarity with the banking environment of Sierra Leone
- Prior experience in similar position will be an added advantage

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of lending institutions and /or banks, as well as the capacity to lead specific analytical work.

Leader and Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. He/she will have the capacity of leading teams and inspire them to work together to achieve challenging objectives.

Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in rural development. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English with a detailed separate CV attached.

In the interest of making the most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interviews. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and to make a presentation, as well as participate in interviews.

Position: Director - Non-Refinance Department

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Inspection, managing the Agricultural Finance Facility, investing in CBs, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in throughout Sierra Leone.

2. Job purpose

Under the overall supervision policy, and management guidance of the Managing Director, the Director will be responsible for providing technical assistance and training to the participating RFIs under the RFCIP2 programme. This will include the design, preparation and delivery of formal training courses to the staff and Board members of the participating RFIs, as well as providing technical on the job coaching and assistance. Additionally, the Director will lead special teams to intervene and assist the management of the RFIs when they are experiencing difficulty and their operational sustainability is at risk. The Director also has the responsibility for hiring and supervising external consultants who have been hired to provide special services. He/She will report directly to the Managing Director on the strategic and operational issues related to the assigned responsibilities, and will supervise the staff in the Department who report to him/her.

3. Duties and responsibilities

The incumbent will be required to:

- Oversee the development and preparation of formal training programmes and courses in rural finance and the delivery of these courses to the RFIs.
- Lead the provision of technical assistance to the RFIs to correct weaknesses in their systems and to help them maintain both microfinance and banking best practice standards.
- Manage the provision of advice and corrective actions to RFIs who are encountering difficulties in their activities and their operational sustainability is at risk.
- Prepare the terms of reference, hire and supervise the external consultants who are hired to provide technical assistance to RFCIP2.
- Develop the fees and rates to be charged for technical assistance and training services to be paid by the RFIs commencing in year 4.
- Identify, and introduce on a trial basis, new rural finance products that will provide better and more varied services to the end clients.
- Lead efforts to monitor and report on the status of the rural finance market in Sierra Leone.
- Head efforts to improve the coordination of the rural finance sector through collaboration with other providers of financial services in the rural areas.
- Manage grants that are extended to RFIs for studies and pilot activities that could impact the entire sector.

- Undertake special assignments as delegated by the Managing Director.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in Accounting or Finance. An advanced university degree in Finance or Business (MBA, or MSc). Or a Degree from a recognized Institute of Bankers, or a closely related field.
- At least 10 years of relevant post qualification professional experience with a local or International Financial Institution. At least 5 years of practical experience of managing or providing technical assistance and training services.
- Familiarity with the banking environment of Sierra Leone.
- Prior experience in similar position will be an added advantage.

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of lending institutions and /or banks, as well as the capacity to lead specific analytical work. Will be skilled at motivating clients in accepting and using the training /technical assistance that is being provided.

Leader and Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. He/she will have the capacity of leading teams and inspire them to work together to achieve challenging objectives.

Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in rural development. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English with a detailed separate CV attached.

In the interest of making the most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interview. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and to make a presentation, as well as participate in interviews.

Position: Director Banking Department

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Inspection, managing the Agricultural Finance Facility, investing in CBs, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness and thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in throughout Sierra Leone.

2. Job purpose

Under the overall supervision policy and management guidance of the Managing Director, the Director will be responsible for the day to day operations of providing current accounts and providing cheque clearing and money transfer services to the members of the APEX. Additionally, he/she will be responsible for the operations of the Treasury unit which will be managing the liquidity of the APEX, as well as undertaking the short term investment strategies for both the APEX and the RFIs. He/She will report directly to the Managing Director on the strategic and operational issues related to the assigned responsibilities, and will supervise the staff in the Department who report to him/her.

3. Duties and responsibilities

The incumbent will be required to:

- Oversee the Clearing and Current Accounts with the participating CBs and FSAs. This will involve managing the daily and weekly reconciliations of these nostro/vostro accounts with the RFIs and investigating and clarifying any differences and disputed entries.
- Manage the clearing house activities of the APEX with the BOSL on behalf of the CBs. Act of the contact person with the BOSL regarding the Clearing Bank function, in particular the relationship with the BOSL branch in Kenema.
- Be responsible for ensuring that the APEX is in compliance with all regulatory requirements of the BOSL.
- Supervise the preparation of weekly liquidity reports that are required by the BOSL.
- Manage and oversee the functions of the Treasury Unit. In particular, the establishment of the risk limits in terms of exposure and interest rate risk with which the unit must comply. Provide guidance to the unit regarding which investment instruments are acceptable risks.
- Undertake special assignments as delegated by the Managing Director.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in or Banking or Finance. An advanced university degree in Finance or Business (MBA, or MSc). Or a Degree from a recognized Institute of Bankers, or a closely related field.

- At least 10 years of experience with a local or international financial institution. At least 5 years of practical experience in managing, or working in a Financial Institutions Group of a commercial bank. A minimum of 3 years of experience working in the Treasury Investment unit of a financial institution (bank, insurance company etc.).
- Familiarity with the banking and financial institutions environment of Sierra Leone.

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of the interbank market and of the investment market, as well as the capacity to lead specific analytical work. Will be skilled at understanding and explaining transactions in highly complex and detailed activities.

Leader and Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. He/she will have the capacity of leading teams and inspire them to work together to achieve challenging objectives.

Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in banking and in financial markets. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English with a detailed separate CV attached.

In the interest of making the most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interview. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and to make a presentation, as well as participate in interviews.

Position: Investment Officer - Treasury Unit, Banking Department

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Inspection, managing the Agricultural Finance Facility, investing in CBs, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness. Thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BOSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices in throughout Sierra Leone.

2. Job purpose

Under the overall supervision policy and management guidance of the Director of the Banking Department, the Investment Officer will be responsible for the investment in Treasury Bills, the Inter-Bank Market and other approved instruments, the surplus liquid funds of the APEX and of the RFIs. This duty will include preparing liquidity projections, tracking the performance of the investments themselves, making recommendations in which instruments to invest, and compiling the necessary liquidity reports for the BOSL. She/He will report directly to the Director of the Banking Department on all strategic and operational issues related to the assigned responsibilities.

3. Duties and responsibilities

The incumbent will be required to:

- Gain a detailed understanding of the operations of the weekly Treasury Bill auctions conducted by the BOSL, and the detailed workings of the interbank market and short term money market.
- Act as the APEX's dealer in these markets.
- Identify the most appropriate instruments for the APEX to invest in, and undertake detailed studies of the various options available in the interbank, Treasury bill and short term money markets.
- Prepare the daily and weekly liquidity projections for the APEX, and explain these to senior management as necessary.
- Compile the liquidity reports as required by BOSL regulations.
- Undertake special assignments as delegated by the Director of the Banking Department.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in or Banking, Finance and Accounting. An advanced university degree in Finance or Business (MBA, or MSc). Or a Degree from a recognized Institute of Bankers, or a closely related field.
- At least 10 years of experience with a local or international financial institution. A minimum of 3 years of experience working in the Treasury Investment unit of a financial institution (bank,

insurance company etc.). Or, must be prepared to undertake extensive formal training in Treasury and Money markets preparatory to acting as dealer for the APEX.
- Familiarity with the banking and financial institutions environment of Sierra Leone.

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of the interbank market and of the investment market, as well as the capacity to undertake specific analytical work. Will be skilled at understanding and explaining transactions in highly complex and detailed activities.

Planner and Organiser/Decision-Maker: The incumbent will have excellent judgment and the ability to think strategically, assessing and responding to new challenges in banking and in financial markets. You will be able to set clear priorities within a boundless and often challenging agenda with tight deadlines.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by letter in English, with a detailed separate CV attached.

In the interest of making the most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interview. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test, and to make a presentation, as well as participating in interviews.

Rural Finance Manager (NPCU)

Duration of assignment: 1-year fixed term (subject to renewal)

Duty station: Kenema City, Sierra Leone

1. Organizational Setting

The APEX Bank (APEX), registered under the Other Financial Services Act (2001) is a service provider to CBs and FSAs that includes Audit & Inspection, managing the Agricultural Finance Facility, providing training, establishing FSAs and CBs, providing Management and Technical Support, MIS support etc.

Its mission is to provide vital banking and non-banking support services to the Community Banks and Financial Services Associations with the aim of improving their operational efficiency and effectiveness and thereby transforming them into efficient financial intermediaries/ institutions capable of serving the communities in which they operate; and also discharging some of the functions of the BoSL delegated through a MoU.

CBs are rural deposit taking institutions and offer deposits, remittance and loans to the communities. They offer other services rendered by Commercial Banks. The major functions of FSAs, also known as village banks, is to mobilize deposits through community participation in the shares they issue and using such funds to lend to its members in relation to the level of shares acquired.

The APEX operates from Kenema office (head office) and has sub offices throughout Sierra Leone.

2. Job purpose

Under the overall supervision and strategic, policy and management guidance of the Managing Director of the APEX, the incumbent will be responsible for overseeing and monitoring the activities of the participating rural financial institutions under the RFCIP2 programme. He/She will report directly to the Managing Director on strategic and operational issues related to the assigned responsibilities, and will provide administration and management support to the regional offices in Makeni, Bo and Freetown.

3.Duties and responsibilities

The **Rural Finance Manager** is responsible for:

- Coordinate project activities relating to rural financial services;
- Coordinate activities of the international technical service providers;
- Monitor the use of funds for rural financial services;
- Plan and be responsible for the implementation of the Financial Service Associations;
- Support the establishment of Community Banks;
- Finalize the monitoring and reporting system related to the rural finance component;
- Participate in the set-up and implementation of the AFF for the community banks and FSAs;
- Establish close links with all partner institutions, in particular BoSL, MAFFS and the MITAF project;
- Prepare the Annual Work Plan and Budget related to the rural finance component;
- Assist in the preparation and implementation of technical support missions, evaluation missions; and
- Prepare reports for project management and for the development partner (IFAD).
- Undertake any other duties as assigned by the Managing Director.

4. Professional requirements

Education and experience

- Minimum requirement is a first degree in Business and/or Finance, an ACCA, advanced university degree in accounting an added advantage (Master's level or equivalent) in finance, or a closely related field.

- At least 10 years of relevant post qualification professional experience with a local or International Financial Institution.
- Proficiency in the use of computerized accounting systems.
- Considerable expertise in financial analysis of the banking and finance sector
- Extremely familiar with the use of ratio and trend analysis and budget variance analysis
- Proficiency in the use of Microsoft Word, Excel and PowerPoint
- Experience with IFAD procedures is of distinct advantage.

Technical skills and competencies

Analytical skills: will have analytical ability and thorough understanding of socio-economic issues as well as the capacity to lead specific analytical work.

Team Worker/Builder: will possess excellent management skills, and will be able to deploy these in a multicultural setting. He/She will have the capacity of leading teams and inspire them to work together to achieve stretching objectives.

Languages and other skills

Excellent written and verbal communication skills in English and any local dialect; including the ability to set out a coherent argument in presentations and group interactions. Excellent working knowledge of Microsoft packages and electronic communication is requires.

5. Other information

Applicants should note that APEX staff members are subject to the authority of the BOD, and they may be assigned to any of the activities of the APEX, including field assignments and/or rotation within the APEX.

The APEX reserves the right to appoint a candidate at the appropriate grade commensurate with experience and knowledge.

Interested candidates are requested to apply by application letter in English with a detailed separate CV attached.

In the interest of making most cost effective use of funds and resources, we are only able to respond to applicants who are short-listed for interview. Candidates who do not receive any feedback within three months should consider their application unsuccessful.

Candidates may be required to take a written test and to deliver a presentation as well as participate in interviews.

Appendix 6: Planning, M&E and learning and knowledge management

1. **Overview.** The main objectives of project planning, monitoring and evaluation (M&E) are to (i) provide timely and accurate information on progress of Project implementation, as well as constant feedback into the system for decision making and addressing potential plan deviations and problem areas; (ii) evaluate the performance of implementing agencies and service providers; and (iii) assess the project's achievements at outcomes and impact levels. Therefore, M&E is a precondition for effective and efficient utilization of project resources in order to achieve the project's outputs and development objectives. In terms of detailed functioning of the M&E system in RFCIP II, the APEX will be responsible for monitoring the outputs and activities of the rural finance institutions through data collection of FSA and CB operations. The evaluation of project impact and overall monitoring of RIMS indicators will be maintained at the NPCU level.

2. **Planning.** On the basis of the Program's Logical Framework (Logframe), the NPCU with input from the APEX would prepare the Program's first AWPB, within six weeks after Program start-up. The AWPB would define outputs and activities with their related indicators and targets, as well as input requirements for the first year and related foreseen costs by budget category. The AWPB would be subject to revision after six months, and may be adjusted if required. The overall AWPB for the program would consolidate the various AWPBs for each component/sub-component in the targeted districts. In fact, AWPBs would be prepared at district level at the beginning of the fourth quarter of each program year for the following year, on the basis of participatory review and planning workshops with beneficiaries and implementing partners of SCP-GAFSP, RCPRP and RFCIP2, and finalized and consolidated by the NPCU.

3. **Results-based Monitoring & Evaluation.** The M&E system would comprise both performance monitoring and impact evaluation. All M&E data would be disaggregated by gender, age and location. The Logical Framework indicators combined with a selection of indicators for rural finance activities (provided by the APEX) form the basis of the monitoring system. The identification of such indicators would also include the source, baseline values and periodicity of reporting. The project M&E system would rely, to the extent possible, on existing structures for reporting on primary or first-level results, thus allowing more time for analysis of project activities and learning from implementation. Where possible, existing government data sources would be used to establish benchmark and baseline data as well as for comparison during implementation.

4. Project results are expected at three different levels which are reflected in the Logical Framework: (i) Project Development Objective (PDO) as the aggregated long-term impacts of the project on the beneficiaries; (ii) outcomes as the short- and medium-term effects of the project resulting from the use of project outputs by the beneficiaries (for example, improved performance of groups and institutions); and (iii) outputs which result from the implementation of project activities. At each level, indicators have been developed which will be integrated into the Results Monitoring Framework (RMF) presently aligned to the PRSP, taking into account IFAD's Results and Impact Management System (RIMS). The indicators will be operationalized in the form of an M&E Plan prior to or during Project start-up.

5. **Overall reporting.** Each implementing partner and service provider would be required to submit regular progress reports to the NPCU. These would be compiled on a quarterly basis, which would feed into the Program's overall half-yearly and annual progress reports. These would be presented at district meetings and provide the basis for eventual adjustments of the existing AWPB as well as for the preparation for the following year's AWPB. The reports would present key qualitative and quantitative information on Program progress, in terms of a descriptive and analytical account of achievements relative to original targets, as well as an

assessment of Program impact on the basis of the RIMS results and impact indicators. Reports would also highlight any implementation problems and reasons for plan deviation, and propose corrective measures. Annual reports would reflect cumulative progress, compliance with legal requirements and reconciliation of expenditures.

6. **Monitoring of rural finance institutions' activities.** IFAD has listed performance indicators, benchmarks and disclosure guidelines for rural and micro finance institutions in its Rural Finance Policy of 2000 and in 2003 adopted the framework for its RIMS. IFAD has also joined the MIX Market, a web-based platform through which MFIs share key indicators on client outreach, efficiency and institutional/financial performance. Therefore, under RFCIP II, reporting of rural finance institution performance will be based on RIMS, MIX Market indicators and a series of these developed by the technical service providers currently assisting CB and FSA development. At **CB level**, all data relevant to chosen performance indicators (financial and non-financial) will be collected on a monthly basis by each CB and sent to the APEX, who in turn will transmit a consolidated monthly report back to BOSL using BOSL's own reporting system. Two important issues were identified whilst using this type of reporting under RFCIP I: (i) MIX Market indicators used to measure financial institutions' performance only target very broad issues and therefore a tailored set of indicators for CB reporting needed to be developed and (ii) BOSL does not provide any template or system for reporting financial data disaggregated by economic sector, gender and age. In the first instance, under RFCIP I, the NPCU's M&E Officer, the Financial Services Coordinator and the APEX staff tackled the issue by elaborating a *sui generis* set of indicators (e.g. top highest exposures, profit/loss balances, etc) - tailored to CB needs - for which these would gather data weekly or monthly, reporting results back to the APEX. This tool has been mainstreamed for CB use and should continue to be form integral part of the monitoring system under the new project. To address the second constraint, the TAA/APEX is currently developing an instrument (excel tracking sheet) for monthly collection of data from each CB, mainly focusing on the disaggregation of the nature of loans given by economic sector (e.g. agriculture, transport, commercial/trade, etc), gender and age. Under RFCIP II, the objective is to mainstream the use of this tool to all CBs as well, whilst complementing overall reporting to BOSL and, eventually, extension of CB registration to the MIX Market. In terms of reporting at **FSA level**: each institution will continue to compile a detailed financial monthly report, which will then be sent to the APEX extension officer in charge of preparing monthly FSA summary reports. These, in turn, will be entered into a database by the Financial Controller. The APEX then submits quarterly and annual reports to the M&E unit in the NPCU who is responsible for evaluating the impact of activities and reporting these back to MAFFS/MoFED.

7. **Monitoring of RIMS indicators and overall evaluation of impact.** The M&E staff of the National Program Coordination Unit (NPCU) and staff of the APEX would be engaged in monitoring and evaluation particularly at the field level. Staff with M&E responsibilities in the APEX would be responsible for submitting regular monitoring reports on the physical progress of Program activities in terms of inputs and outputs in accordance with prescribed forms developed by the M&E unit in the NPCU. Data collected from the field would be collated by the M&E Unit. The M&E system will adhere to the RIMS requirements of IFAD, will be in line with GOSL requirements and will generate sex and age disaggregated data on project outputs, outcomes and impacts. In fact, these gender and youth sensitive indicators will be complemented by the ongoing Gender Action Learning System (GALS) process - currently being tested in Kenema district - which generates indicators and provides baseline information including gender and poverty aspects.

8. The main role of the M&E staff will be to:

(a) Assist the program management in defining the priority areas and population to be targeted by the Program;
(b) To provide a continuous follow-up in order to measure the efficiency of the Program implementation through the monitoring of measurable indicators;

(c) To compare measured values to preset targets; and eventually
(d) To point out the activities whose impact is lower than the preset targets.

9. Their activities consist of:

(a) Data acquisition. According to the type of data, the Monitoring Unit would either collect data directly through site surveys, census or sub-contract data acquisition to specialized Institutions. Most of the data relating to program performance would be collected by the service providers. For site surveys, the Monitoring Unit team members should be equipped with GPS to acquire coordinates. Whilst the GPS can be connected to hand held computers which allow direct data acquisition in electronic format, this system would be more costly to implement than manual data entry.
(b) Data input. The data would be entered by a computer operator.
(c) Data analysis. Data collected from the site would be analyzed by the various technical staff in the NPCU, e.g. agricultural data should be analyzed and reviewed by the agronomist in order to validate the relevance of the data (e.g. ton per ha per type of crop).
(d) Data consolidation. After the data has been collected from the site, analyzed and validated, it is the task of the database Coordinator to include the validated data into the data bank.
(e) Production of outputs in form of maps, tables or charts representing statistics related to the predefined indicators.

10. **Monitoring System.** The Program would continue to use the existing multi-track monitoring system developed under RFCIP I, comprising:

(a) The APEX's computerized model focusing on the monitoring of the financial aspects of the program implementation;
(b) The computerized M&E system (TECHPRO) used by the NPCU both in reporting to IFAD via RIMS indicators and in line with MAFFS/MOFED requirements;
(c) GIS-based impact/performance monitoring system (GIS/MIS) which would were developed in the previous project phase to enable data collection and processing on various aspects of program activities to be linked or overlaid, and presented in graphical form for ease of comprehension. This system would continue to be used to generate quarterly and annual reports.

11. **Baseline surveys for rural finance activities.** The impact assessment carried out at completion of RCFIP I as well as baseline studies carried out under the SCP-GAFSP program would constitute the baseline for RFCPI II's objectives. Furthermore, the Program would carry out a socio-economic baseline survey in relevant districts during the first semester of project year 1, which would provide the basis for assessing the program's impact on the beneficiaries at mid-term review and at project end. The survey would establish benchmarks with regard to the socio-economic situation of poor rural households, which would include gender and vulnerability aspects.

12. **Baseline surveys for operational activities.** The impact assessment carried out at completion of RCFIP I as well as baseline studies carried out under the SCP-GAFSP program would constitute the baseline for RFCPI II's operational objectives. Furthermore, several studies recently published - the Agricultural Household Tracking Survey by GOSL and FAO (August 2011), UNICEF SL's Nutrition Survey (December 2010), the State of Food Security and Nutrition in SL Report by GOSL and WFP (September 2011) - could also be used as comparative baseline data.

13. **IFAD supervision**: The Project will also be subject to monitoring and evaluation through standard IFAD supervision modalities, including yearly audits conducted by independent consulting firms.

14. **Interim Reviews.** Two interim reviews will take place; one in year three and the other at the end of year six/seven. Both reviews will assess: (i) program achievements against targets; (ii)

interim program impact; (ii) efficiency and effectiveness of program management; and (iii) validity of program design. On the basis of its findings, the review missions would revise the Program Document for the remaining project life, if necessary. In particular, the interim reviews would make an assessment of the performance and achievements of the FSAs, CBs and the APEX itself, on the basis of which specific recommendations would be made on whether to: (i) proceed as planned; (ii) accelerate implementation; (iii) stop all further implementation; or (iv) modify the implementation plans and approaches. The interim reviews would also assess the progress made in terms of degree of use of the agricultural finance facility and impact of the loans on the ability of the financial institutions to extend their outreach. In the light of the above, it would assess the demand for further loans and decide on how best the AFF can continue to be managed, and/or if modifications might be required.

15. **Periodic participatory impact assessment studies** may be carried out as appropriate (and indicated in the M&E Plan) to assess the impact of program interventions on the rural households engaged in farming, value addition and off-farm economic activities; note that environmental considerations will also form an integral part of the studies. Impact assessment refers to the third level of monitoring with the evaluation of the performance of the project activities in terms of impact on beneficiaries. The impact evaluation will enable an assessment of the relevance, efficiency and sustainability of the activities that will feed into the knowledge management process.

16. **Program Completion Report.** At the end of the Program, the NPCU would prepare an internal Program Completion Report (PCR), which would include an assessment of the achieved Program impact vis-à-vis the planned impact, to be submitted to GOSL and IFAD within three months after Program completion. This PCR would provide the basis for IFAD's own PCR and will cover key criteria and aspects associated with achievement of project objectives. These include: the relevance of the project design, effectiveness of project benefits, efficiency, performance of institutions (and arrangements), impact, innovation, lessons learned, opportunities for replication and scaling-up of activities/ approaches, sustainability of benefits and institutions, and effectiveness of the targeting and gender strategies.

17. **Knowledge Management**. The integration of knowledge management in all aspects of project management aims at improving management processes and delivery of the project's objectives. Learning from successes and failures and a continuous improvement process within RFCIP II will be derived from and, at the same time, strengthen the M&E system. The main purpose of the knowledge management process is to ensure that knowledge generated within the project is systematically identified, analyzed, documented and shared. This systematic learning and knowledge management approach will enable the project to be flexible and responsive to changing circumstances. In addition, the knowledge management process will ensure that appropriate lessons learned and good practices from different actors are gathered and disseminated to the benefit of stakeholders.

Appendix 7: Financial management and disbursement arrangements

1. The financial management system will be under the responsibility of the NPCU, with the NPCU Coordinator and Financial Controller as joint signatories to all withdrawal applications on the project accounts.

Project accounts and disbursement methods

2. Disbursements under the RFCIP2 will be transaction based. Payments under all categories will be apportioned on a 50:50 pari passu basis between the loan and the grant. Direct Payment and Designated Accounts (DA) methods as well as SOE (Statement of Expenditures) mechanism will apply as appropriate. Two Designated Accounts (one for the loan and one for the grant) will be opened to facilitate payment for eligible expenditures. For the purposes of streamlining procedures and reducing the processing time, the RFCIP2 designated account will be operated under the joint signature of the Project Coordinator and the Financial Controller of the NPCU. Withdrawal applications are approved by NPCU (Project Coordinator and Financial Controller) and two representatives of the Ministry of Finance. Quarterly financial reports are required by the Accountant General of the Ministry of Finance prior to approval of withdrawal applications. Disbursement procedures will be described in the updated Administrative, Accounting and Financial Manual, Letter to the Borrower and Disbursement Handbook. The allocation of each Designated Account will cover approximately six months expenditures. The minimum value of applications for replenishment is 20% of outstanding advance made to each designated account.

3. **Counterpart funds.** Government co-financing for RFCIP2 will cover payment of taxes and duties. In accordance with country regulations, counterpart funds are supposed to be released quarterly, based on the approved budget/ allocation. However, economic management and budget execution face recurrent challenges including (i) delays in the disbursement of external budgetary support and consolidation of the institutional structure; (ii) rise in food and fuel prices; (iii) high inflationary pressures resulting in loss of purchasing power by households; (iv) weak fiscal and balance of payments positions; and (v) reduction in foreign exchange reserves.

4. Given the recurrent budget reductions and delays in release of counterpart funds, tax exemption should be applied to the extent possible. Imported goods will be exempted from all taxes and levies. According to Art 12 of the Tax Act, only International Agreements ratified by Parliament will qualify for tax exemption. All IFAD projects including RFCIP2 qualify for exemption.

5. The following conditions need to be met by MOFED for IFAD to make the first disbursement:

- The first AWPB receives IFAD's no-objection;
- MAFFS opens the RFCIP2 Designated Account in USD and the RFCIP2 Operations Account in Le in a commercial bank acceptable to IFAD;
- A revised draft of the RFCIP2 programme implementation manual is submitted to IFAD;
- The appointment or recruitment of the APEX Managing Director;
- Preliminary approval from the BOSL is received for the registration of the APEX under the OFS Act, 2001.
- Establishment of the MoU between the BOSL and the APEX;
- TAA/APEX has strengthened its accounting capacity and internal controls through a modified internal audit function;
- TAA/APEX has properly configured its accounting systems to meet IFAD's standards;
- TAA/APEX has developed a draft Financial and Administration Manual;

- The APEX opens three accounts for i) the AFF ii). the capitalisation of the CBs, and iii) other operations; and
- The AFF Steering Committee and Programme Steering Committee are established.

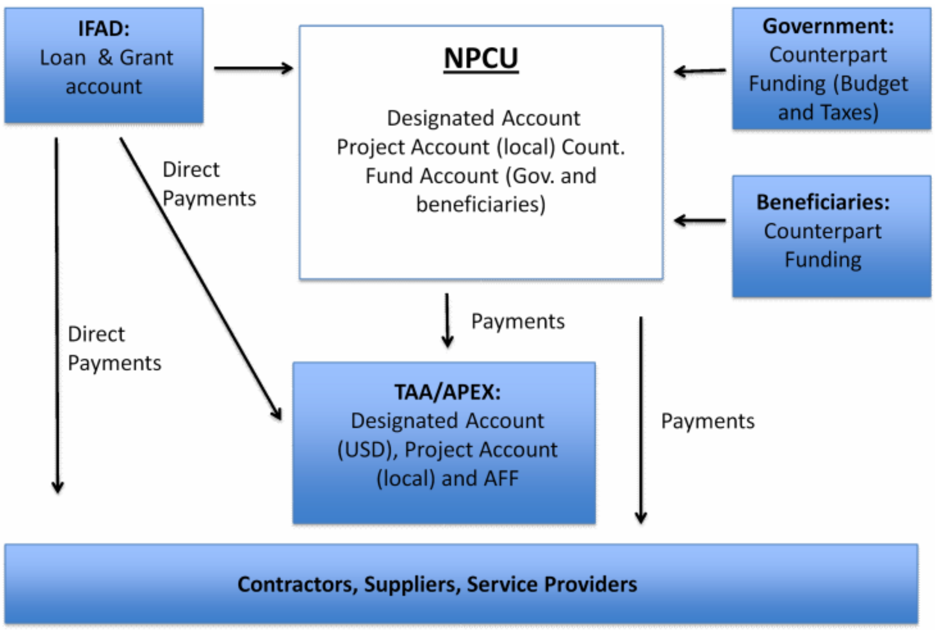
Flow of funds for operations

6. **Flow of funds.** The flow of funds of the project will reflect the project implementation arrangements. The NPCU will open and maintain a designated account in USD and an operating account in local currency in a bank acceptable to IFAD. The NPCU will also open and maintain an account designated to receive counterpart financing in local currency at the Central Bank of Sierra Leone or a commercial bank acceptable to IFAD.

7. The TAA/APEX will open and maintain a designated account in USD and an operating account in local currency in a bank acceptable to IFAD. From this account the TAA/APEX will finance its operating costs including staff salaries. In addition the TAA/APEX will open and maintain a separate account designated for the Agricultural Financing Facility (AFF).

8. The disbursement arrangements will follow IFAD's standard disbursement procedures and all withdrawal applications will be sent through the NPCU. The detailed disbursement conditions of the AFF managed by the TAA/APEX will follow a performance based disbursement schedule specified in the MOU between the NPCU and the TAA/APEX, approved by IFAD. The disbursement schedule will contain clearly defined disbursement triggers and reporting arrangements including the provision of quarterly/semi-annual interim financial reports and annual external audits issuing a separate audit opinion on the use of the funds in the AFF.

Diagram: Flow of funds



Budgeting, accounting and reporting procedures

9. **Budgeting arrangements.** The government fiscal year runs from 1st January to 31st December. Every year, the budgeting exercise starts in August. Line Ministries are given ceilings on the basis of past expenditure performance and revenue forecasts for the next fiscal year. Line Ministerial Budget proposals are submitted to the Ministry of Finance and Economic Development, which are then discussed in October/November. The final Government proposed budget is then presented to Parliament for debate by the Minister of Finance and Economic

Development in December through the Budget Speech. Once all Parliamentary processes are concluded, the Ministerial budget estimates then form part of the consolidated estimates of expenditure for the fiscal year commencing in January. The RFCIP2 Annual Work Plan and Budget will consist of separate budgets prepared by the NPCU and main implementing partner, the TAA/APEX. The consolidated Annual Work Plan and Budget will be adopted by the Programme Steering Committee before the beginning of the year and submitted for IFAD's non-objection. Project's transactions will be recorded in the Tompro accounting software to ensure the comprehensiveness of the budget execution reports.

10. **Accounting policies and procedures.** For the NPCU, the TOMPRO accounting software will be further customized to meet project's needs and generate IFRs (interim financial reports) and financial statements. New modules will be integrated in the software to ensure that all transactions are captured in the system and financial reports are generated in compliance with IFAD requirements. The current accounting standards in use in NPCU for on-going IFAD-financed projects will be applicable. Project accounts will be maintained on a cash basis, supported with appropriate records and procedures to track commitments and to safeguard assets. Annual financial statements will be prepared by the NPCU in accordance with International Accounting Standards. Accounting and control procedures will be documented in the Administrative, Accounting and Financial Manual. The Manual will be updated as necessary.

11. The TAA/APEX will initially maintain two parallel accounting systems: i) Bank Manager (on an accrual basis) for recording and monitoring the portfolio performance and the AFF and ii) TOMPRO (on a Cash basis) for recording and reporting on expenditures incurred under the IFAD financing. Once the Bank manager software has been properly configured to generate reports to meet IFAD's requirements, the TAA could move to using only one accounting software for all its operation.

12. **Reporting and Monitoring.** The NPCU will provide IFAD with the following reports:

(a) Quarterly interim financial reports (IFRs) including the following: i) Statement of Cash Receipts and Payments by Category (USD), ii) Summary of Expenditures by Loan Categories and By Financiers (USD), iii) Financial performance by financier by component including planned vs actual expenditures, iv) Statement Of Expenditures - Withdrawal Application Statement and v) Entered commitments (contracts signed not paid) by category. The NPCU will submit copies of the IFRs to IFAD within 45 days following the end of each quarter

(b) Annual Financial Statements within three months after the end of the fiscal year, prepared in compliance with International Accounting Standards (IAS) and IFAD requirements. These Financial Statements will comprise of: i) Statement of project management responsibilities including a Management Assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements, ii) Statement of cash receipts and payments (by category and by financier), iii) Statement of cash receipts and payments (by component), iv) Statement of comparative budget and actual amount, v) Statement of Designated Account movements, vi) Statement of Designated Account Reconciliations, vii) SOE-Withdrawal Application Statement and viii) Notes to the Financial Statements.

(c) Annual audit report and management letter within six months after the end of the borrower's fiscal year.

13. TAA/APEX will provide the NPCU and IFAD with the following financial reports:

(a) Quarterly interim financial reports within 45 days following the end of each quarter including: i) Statement of Cash Receipts and Payments by Category (USD), ii) Summary of Expenditures by Loan Categories and By Financiers (USD), iii) Financial performance by financier by component including planned vs actual expenditures, iv) Statement Of Expenditures - Withdrawal Application Statement and v) Reconciliations of the designated accounts including the AFF in a format acceptable to IFAD

(b) Quarterly portfolio monitoring reports within 45 days following the end of each quarter covering the AFF and the performace of the CBs and the FSAs. The portfolio monitoring reports covering the financing instrument, loan amount and average size, grace period, interest rate, repayment status, write off, delays in repayment, type and amount of collateral, disburserment rate and outstanding amount. The portfolio reports should also include indicators and ratios in the following areas: Loans, savings, Product focus, operating efficiency, Profit, Depth, Efficiency, Liquidity and Capital Adequacy.

(c) Annual financial statements within three months after the end of the fiscal year comprising of the i) Statement of project management responsibilities including a Management Assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements, ii) Statement of cash receipts and payments (by category and by financier), iii) Statement of cash receipts and payments (by component), iv) Statement of comparative budget and actual amount, v) Statement of Designated Account movements, vi) Statement of Designated Account Reconciliations, vii) SOE-Withdrawal Application Statement; and viii) Notes to the Financial Statements.

(d) Annual audit report and management letter within six months after the end of the borrower’s fiscal year.

Audit arrangements

14. The Financial Agreement will require project to submit annual Audited Financial Statements to IFAD within six months after year-end. Under the project the NPCU and TAA/APEX will provide either consolidated or separate annual audits in accordance with IFAD’s guidelines on project audits. External auditors with qualification and experience satisfactory to IFAD will be appointed to conduct an annual audit of the project’s financial statements. An opinion on the Audited Project Financial Statements in compliance with International Standards on Auditing (ISA) will be required. An opinion on the utilization of the Designated Accounts, Statements of Expenditures and internal control systems will also be required. In addition to the standard audit opinions outlined above, the external auditors will be required to issue a separate opinion on the utilization of the Agricultural finance facility (AFF) managed by the TAA. IFAD supervision mission reports will be reviewed and taken into account in the auditors’ opinion. The external auditors will prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls, compliance with financial covenants in the Financial Agreement and compliance with previous year’s auditors’ recommendations.

15. **Internal audit.** The TAA/APEX will strengthen its internal controls by modifying the function of the existing audit and inspection unit to focus also in the TAA and to report to the entity’s board of directors. A copy of the report will be submitted to the NPCU and IFAD for information.

Other

16. **Financial and administrative manual (FAM).** The NPCU will update its FAM to reflect the requirements of the new project. The TAA/APEX will need to develop a comprehensive FAM to cover the following topics: Budgeting and Planning, Accounting System, Records Management, Internal Controls, Flow of Funds,& Cash and Bank Account Management, IFAD Disbursement Procedures , Processing of Payments, Financial Reporting, Fixed Asset Management, Audit Arrangements, NPCU & IFAD Supervision and Project Completion and Closing.

17. **Supervision Plan.** The project will be under IFAD direct supervision and subject to supervision missions twice a year. This intensity may be accommodated according to the evolution of FM performance. Supervision activities will include: (i) review the financial management aspects and quarterly IFRs; (ii) review of annual audited financial statements and management letter as well as timely follow up of issues arising; (iii) and participation in project supervision missions, as appropriate, including the participation of IFAD FM specialists and Ministry of Finance’s representative.

18. **Financial Covenants.** The NPCU will integrate the RFCIP2 in the existing financial management system including records, accounts and preparation of related financial statements in accordance with accounting standards acceptable to IFAD. The Financial Statements will be audited in accordance with international auditing standards. The Audited Financial Statements for each period shall be furnished to IFAD not later than six (6) months after the end of the project fiscal year. The NPCU shall prepare and furnish to IFAD not later than 45 days after the end of each calendar quarter, interim un-audited financial reports for the Project, in form and substance satisfactory to IFAD. The NPCU will be compliant with all the rules and procedures required for withdrawals from the Designated Accounts of the project.

Appendix 8: Procurement

Background and rationale

1. IFAD has the fiduciary responsibility to ensure that the proceeds of the loan and grant financing are used solely for the purposes intended under the related agreement and in accordance with the activities described in the Annual Work Plan and Budget.

2. Procurement for the proposed project will be carried out in accordance with national procedures to the extent that they are compatible with the IFAD's Procurement Guidelines and Operational Manuals, and as they may be amended from time to time. Each contract to be financed by IFAD financing will be included in the Procurement Plan prepared by the NPCU and agreed with IFAD.

3. **National procurement system**. Based on the Procurement assessment undertaken by Crown Agents in 2011, the national procurement regulations were found to meet IFAD requirements and are suitable for use. Sierra Leone adopted a Public Procurement Act in December 2004. In general, Sierra Leone procurement laws and regulations do not conflict with IFAD guidelines. Bidders are required to be registered but there are no restrictions of bidders' eligibility, including international bidders. Time given to bidders to submit their bids are acceptable to IFAD (4 weeks). Preference margins may be applied in accordance with IFAD Guidelines. National Standard Bidding Documents as well as provisions on evaluation criteria and composition of the Procurement Committee are acceptable to IFAD. Thresholds for publication are set as follows:

    (a) Contracts for the procurement of goods, Le 300 million;

    (b) Contracts for the procurement of works, Le 600 million;

    (c) Contracts for the procurement of consulting services, Le 300 million.

4. This annex serves to provide some key principles of IFAD procurement guidelines and an overview of the procurement management process to be followed by the project. However it is not meant to provide the detailed operational procedures for undertaking project-related procurement. That information is contained in the Procurement Handbook for use by IFAD staff and borrowers/recipients, Project Implementation Manual and the national procurement regulations.

Procurement management

5. The general and specific principles that should guide the project during implementation and procurement in particular, are as follows:

    General principles:

    - The responsibility for programme implementation and for procurement using IFAD funds lies with the Government.
    - IFAD ensures that the proceeds of any financing are used only for the purposes for which the financing was provided, after a full, fair and legitimate competition among the bidders with due attention to the principles of transparency, efficiency, effectiveness and economy.

    Programme specific principles:

    - Procurement is carried out in accordance with the Financing Agreement and the Letter to the Borrower (and PIM) and any subsequent changes reflected in IFAD's mission reports (e.g. supervision reports, mid-term reviews, back-to-office reports, aide-memoires, correspondence).
    - Procurement is to be conducted within the project implementation period (from the date of effectiveness to the date of completion). Procurement cannot be undertaken between

the date of completion and the closing date.

- Does not exceed the availability of funds duly allocated by the financial agreement
- Is consistent with the approved Annual Work Plan and Budget (AWBP); and
- **Provides the best value for money**: best value does not necessarily mean the lowest initial price option, but rather represents the best return on investments, taking into consideration the unique and specific circumstances of each procurement activity; the balance of time, cost and quality required; and the successful overall outcome of the contract in meeting its original objectives.

6. In accordance with the national procurement regulations, the following procurement principles will govern every procurement activity undertaken by the programme or its implementing partners: ethics, accountability, competition, fairness, transparency, efficiency, effectiveness and economy, and value for money.

7. Thresholds for procurement methods are shown below and reflect those established in the national law. Thresholds will be clearly indicated in each procurement plan and may be established in US Dollars equivalent taking into account prices in 2004 (when the national law was issued).

8. The identification and short listing of suppliers for project procurement is normally carried out by means of a competitive process, in compliance with the IFAD Guidelines for Procurement. This competitive process may be more or less open depending on the provisions of the loan/grant agreements and the national regulations. The table below summarizes the procurement modalities and the IFAD review requirements for the various categories of procurement and related thresholds[35]:

Procurement category and thresholds in thousands of USD (Leones)	Procurement modality	Selection basis	IFAD review requirements
GOODS			
< 8.3	National shopping	RFQ (3 quotes)	Post review
≥ 8.3 - < 20 (60m)	National shopping	RFQ (5 quotes)	Post review
≥ 20 - < 200 (600m)	NCB	ITB	Prior review if ≥ $ 30,000
≥ 200 (600m)	ICB	ITB	Prior review
Farm inputs	Community Procurement	Quotations / Direct Contracting	Post review
WORKS/TECHNICAL SERVICES			
< 8.3	National shopping	RFQ (3 quotes)	Post review
≥ 8.3 - < 50 (150m)	National shopping	RFQ (5 quotes)	Post review
≥ 50 - < 300 (900m)	NCB	ITB	Prior review
≥ 300 (900m)	ICB	ITB	Prior review
CONSULTING SERVICES			
< 8.3	Shortlist	CV comparison (individuals) or RFQ (firms)	Post review
≥ 8.3	Shortlist	RFP (QCBS)	Prior review if ≥ $ 20,000
National institutions, MAFFS departments, UN agencies	Sole-Source selection	Direct Contracting	Prior review

[35] These thresholds are derived from the Sierra Leone 2004 Procurement Act, which was issued when the prevailing exchange rate was 3 ,000 Leones for 1 USD. When preparing the procurement plan and launching procurement, the NPCU should use the Leones equivalent of these thresholds so as to avoid the negative impact of exchange rate fluctuations.

9. National Competitive Bidding procedures may be those described in the national Public Procurement Act. In order that this method be acceptable to IFAD to be used in the present project, the following requirements will be taken into account, in line with national procedures: (i) the invitation to bid is advertised in national newspapers with wide circulation; (ii) the bid evaluation, qualification of bidders and contract award criteria are clearly indicated in the bidding documents; (iii) the bidders are given adequate response time (at least four weeks) to prepare and submit their respective bids; (iv) the contract is awarded to the lowest evaluated bidder which meet the qualification criteria; (v) the eligible bidders, including foreign bidders, are not precluded from participating; and (vi) no preference margin is granted to local suppliers or contractors. A specific procurement notice will be published in a national newspaper or on a free access website.

10. **Procurement of Works.** Procurement related to FSA construction and roads rehabilitation will be carried out at district level and will include the participation of the Local Council Procurement Officer under the overall coordination of the NPCU Procurement Officer. The Chairman of the Procurement Committee (Chief Admin of the Local Council) and local communities' representatives will exercise control over the procurement process. Contracts for works estimated at less than Le 900 million, if any, will be procured under NCB procedure. Contracts for works estimated at Le 150 million or less may be procured under the shopping procedure. Works will be procured under contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. In view of the limited number of bidders available at local level and in order to maximize bidders' participation, the invitation to bid will be advertised in local newspapers and radios. The invitation shall include a detailed description of the works, basic specifications, required completion date, basic form of agreement acceptable to IFAD. The award will be made to the contractor with the lowest price quotation and who has the experience and resources to successfully complete the contract. Small works estimated to cost less than Le 150 million for demand-driven investments and micro-projects may be procured under simplified procedures for community participation in procurement in accordance with procedures established in the Project Implementation Manual.

11. **Procurement of Goods.** Procurement of goods (mainly vehicles, office equipment for NPCU and FSAs, purchase of seeds) will be carried out at national level. ICB procedures will be applied in accordance with national procedures which are acceptable to IFAD for purchase of goods (mainly vehicles) estimated above Le 600 million. A General Procurement Notice (GPN) will be prepared by the Borrower and published in the United Nations Development Business online (UNDB online) and Development Gateway Market (dgMarket) and international newspapers and on a free access website. Contracts estimated at less than Le 600 million for locally available goods will be awarded through NCB procedures. Contracts for small goods and office supplies, as well as minor equipment and furniture available locally and estimated at less than Le 60 million may be procured under shopping procedures. These include: furniture; vehicles for the project if the contract estimate amount permits the use of this procedure; computers; accessories; software; communication; and office equipment, etc.

12. **Procurement of services and selection of Consultants.** Consultants will be selected using the Quality and Cost-Based Selection (QCBS) method in most cases. In special cases specified in the Procurement Plan (PP) the following methods will be used: (i) Quality-Based Selection (QBS); (ii) Least Cost Selection (LCS); (iii) Selection Based on the Consultants' Qualifications (CQS), (iv) Single-Source Selection (SSS); and (v) Individual Consultants (IC) Selection in accordance with IFAD Guidelines. Selection will be processed prior to the establishment of short-lists for all consultancy firms. Expression of interest will be mandatory for all contracts except for contract amounts below Le 600 million. ICB procedures will be applied for contracts estimated above Le 600 million, if any. Contracts estimated at less than Le 600 million will be awarded through NCB procedures. Shopping procedures will be applied for services below Le 60 million.

13. As regards Training, Workshops and Study Tours if any, at the beginning of each year the NPCU will submit its proposed plans in the form of an annual action plan for the coming year, to be reviewed by IFAD. The plan would indicate the persons or groups to be trained, the type of training to be provided, indicative learning outcomes, the provider and the location of the training, its estimated cost. Selection of training institutions for workshops/training should be based on a competitive process. The NPCU will ensure widely publicized Requests for Expressions of Interest (REI) for all contracts for consultants, except for single source when applicable.

14. Operating costs financed by the project consists of additional expenditures incurred, such as office equipment and supplies, rental costs, maintenance of vehicles, fuel and spare parts, as well as travel expenses and per diem, to the extent that these expenses are required for project monitoring. They will be procured using the shopping procedure and grouping, as much as possible, resorting to customer contracts for procurement of routine services. These procedures will be specified in detail in the Project Implementation Manual (PIM), and procurements scheduled in the Procurement Plan (PP) submitted to IFAD for prior approval.

Appendix 8.1: Draft 18-month procurement plan

Section A: Goods and Works

SIERRA LEONE
PROCUREMENT PLAN FOR WORKS/GOODS /SERVICES
RURAL FINANCE AND COMMUNITY IMPROVEMENT PROGRAMME2
Project Implementation Agency: Ministry of FINANCE AND ECONOMIC DEVELOPMENT (MoFED)

Goods and works

Thresholds: Goods: NCB: between US$ 20000 and 200000; NS: less than US$ 20000
Works: NCB US$ 50000 or more; NS less than 50000 US$:

(Date): Jan 2013 -June, 2014

	SL No.	Review by Fund Prior/Post	Budget Code	Procurement No.	Description of Works/Goods	Estimated Cost (USD)	Estimated Cost (SLL)	Methodof Proc. ICB/NCB/NS/DC	Design/ Investigation/Specs. Completed (Date)	Final Estimate Prepared & Sanctioned (Date and Value)	Finalization of Bidding Document (Date)	No Objection to Bidding Document (Date)**	Bids: Invitation (Date)	Bids: Opened on (Date)	Evaluation (Date)	IFAD's No Objection to Contract Award (Date)**	Contract Signed (Date/Value/Currency)	Contract No.	Name of Contractor/Nationality & ZIP Code	Date of completion of Contract	Remarks
	1	2			3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
	Component-1 (Sustainable and Autonomous Rural Financial Institutions																				
	Component-1.1- Establishment of Community Banks																				
*PP	1	Prior		NPCU/RFCIP2 /NCB/01/2013	Construction of Community Bank and Qtr in Western Area (Rural)	95 600	408 690 000	NCB	2-Jun-13	7-Jun-13	12-Jun-13	19-Jun-13	24-Jun-13	24-Jul-13	7-Aug-13	14-Aug-13	13-Sep-13			10-Feb-14	
R																					
A																					
*PP	2	Post		NPCU/RFCIP2 /NS/01/2013	Rehabilitation of 8No. Community Banks (NS by contract)	80 000	342 000 000	NS	15-Jun-13	20-Jun-13	25-Jun-13	-	27-Jun-13	11-Jul-13	25-Jul-13	-	8-Aug-13			7-Oct-13	
R																					
A																					
*PP	3	Post		NPCU/RFCIP2 /NS/02/2013	Construction of 7No. CB Quarters (NS by Contract)	210 000	897 750 000	NS	15-Jul-13	20-Jul-13	25-Jul-13	-	27-Jul-13	10-Aug-13	24-Aug-13	-	7-Sep-13			5-Jan-14	
R																					
A																					
*PP	4	Post		NPCU/RFCIP2 /NS/03/2013	Erection of 2 Bill Boards for CBs (NS by contract)	20 000	85 500 000	NS	15-Nov-13	20-Nov-13	25-Nov-13	-	27-Nov-13	11-Dec-13	25-Dec-13	-	8-Jan-14			29-Jan-14	
R																					
A																					
*PP	5	Prior		NPCU/RFCIP2 /SS/01/2013	MIS for Community Banks	15 000	64 125 000	SS	15-Nov-13	20-Nov-13	25-Nov-13	2-Dec-13	4-Dec-13	18-Dec-13	1-Jan-14	8-Jan-14	15-Jan-14			5-Feb-14	
R																					
A																					
*PP	6	Prior		NPCU/RFCIP2 /SS/02/2013	Upgradation of system	100 000	427 500 000	SS	15-Nov-13	20-Nov-13	25-Nov-13	2-Dec-13	4-Dec-13	18-Dec-13	1-Jan-14	8-Jan-14	15-Jan-14			5-Feb-14	
R																					
A																					
*PP	7	Prior		NPCU/RFCIP2 /ICB/01/2013	Supply and Installation of V-Sat	150 000	641 250 000	ICB	15-Aug-13	20-Aug-13	25-Aug-13	1-Sep-13	3-Sep-13	15-Oct-13	29-Oct-13	5-Nov-13	12-Nov-13			11-Jan-14	
R																					
A																					

*PP	8	Post		NPCU/RFCIP2 /ICB/01/2013	Supply of 7 units station wagon vehicles	350 000	1 496 250 000	ICB	15-Jul-13	20-Jul-13	25-Jul-13	1-Aug-13	3-Aug-13	14-Sep-13	28-Sep-13	5-Oct-13	12-Oct-13			10-Jan-14	
R																					
A																					
*PP	9	Post		NPCU/RFCIP2 /NCB/02/2013	IT Equipment for Community Banks (Desktop 12, Laptop 4, Printers 2, Photocopier 2, Scanner 2, instant camera 2)	59 000	252 225 000	NCB	15-Sep-13	20-Sep-13	25-Sep-13	2-Oct-13	4-Oct-13	3-Nov-13	17-Nov-13	24-Nov-13	1-Dec-13			12-Jan-14	
R																					
A																					
*PP	10	Post		NPCU/RFCIP2 /Ns/04/2013	Supply of 2 units 7.5KVA Diesel Generator for CBs	6 000	25 650 000	NS	15-Sep-13	20-Sep-13	25-Sep-13	-	28-Sep-13	12-Oct-13	26-Oct-13	26-Oct-13	9-Nov-13			30-Nov-13	
R																					
A																					
*PP	11	Post		NPCU/RFCIP2 /Ns/05/2013	Supply of 2 units cash safes for CBs	5 000	21 375 000	NS	11-Sep-13	16-Sep-13	21-Sep-13	-	24-Sep-13	8-Oct-13	22-Oct-13	22-Oct-13	5-Nov-13			26-Nov-13	
R																					
A																					
*PP	12	Prior		NPCU/RFCIP2 /NCB/03/2013	Suppy of Furniture for 2 CBs	15 000	64 125 000	NCB	11-Sep-13	16-Sep-13	21-Sep-13	28-Sep-13	3-Oct-13	2-Nov-13	16-Nov-13	16-Nov-13	30-Nov-13			11-Jan-14	
R																					
A																					
*PP	13	Prior		NPCU/RFCIP2 /ICB/03/2013	Supply & Installation of Solar Panel for CBs	144 000	615 600 000	ICB	11-Sep-13	16-Sep-13	21-Sep-13	28-Sep-13	3-Oct-13	14-Nov-13	28-Nov-13	5-Dec-13	4-Jan-14			4-Apr-14	
R																					
A																					
*PP	14	Post		NPCU/RFCIP2 /NS/06/2013	Supply of 6 units motorbikes for 2 CBs	9 000	38 475 000	NS	11-Nov-13	16-Nov-13	21-Nov-13	-	26-Nov-13	10-Dec-13	24-Dec-13	-	29-Dec-13			19-Jan-14	
R																					
A																					
*PP	15	Post		NPCU/RFCIP2 /NS/07/2013	Supply of Ultra Violet light for 2 CBs	2 000	8 550 000	NS	11-Nov-13	16-Nov-13	21-Nov-13	-	26-Nov-13	10-Dec-13	24-Dec-13	-	29-Dec-13			19-Jan-14	
R																					
A																					
*PP	16	Post		NPCU/RFCIP2 /NS/08/2013	Supply of Chairs, Till Boxes for Cash in Gtransit for 2CBs	3 000	12 825 000	NS	20-Oct-13	25-Oct-13	30-Oct-13	-	4-Nov-13	18-Nov-13	2-Dec-13	-	7-Dec-13			28-Dec-13	
R																					
A																					

*PP	17	Post		NPCU/RFCIP2 /NS/09/2013	Supply of Furniture and Fittings for CB Qtr (NS by Contract)	72 000	307 800 000	NS	20-Jul-13	25-Jul-13	30-Jul-13	-	4-Aug-13	18-Aug-13	1-Sep-13	-	6-Sep-13			6-Oct-13	
R																					
A																					
	Component 1.1 Total (Planned)					**1 335 600.00**	**5 709 690 000**														
	Component 1.1 (Actual)					-															
	Component-1.2 : Financial Services Associations																				
*PP	18	Post		NPCU/RFCIP2 /NS/10/2013	Construction of 6No. FSAs (Moyamba Dist 2, Bo Dist 2, Kambia 1, Western Area Rural 1) NS by contract	210 000	897 750 000	NS	20-Jun-13	25-Jun-13	30-Jun-13	-	5-Jul-13	19-Jul-13	2-Aug-13	-	7-Aug-13			5-Dec-13	
R																					
A																					
*PP	19	Post		NPCU/RFCIP2 /NS/11/2013	Construction of 65No. FSA Staff Qtrs (NS by Contract)	975 000	4 168 125 000	NS	15-May-13	20-May-13	25-May-13	-	30-May-13	13-Jun-13	27-Jun-13	-	2-Jul-13			30-Oct-13	
R																					
A																					
*PP	20	Post		NPCU/RFCIP2 /NS/12/2013	Erection of Bill Borads (NS by Contract	30 000	128 250 000	NS	11-Oct-13	16-Oct-13	21-Oct-13	-	26-Oct-13	9-Nov-13	23-Nov-13	-	28-Nov-13			28-Dec-13	
R																					
A																					
*PP	21	Prior		NPCU/RFCIP2 /NCB/04/2013	Furniture for 6 FSAs	24 000	102 600 000	NCB	15-Oct-13	20-Oct-13	25-Oct-13	1-Nov-13	6-Nov-13	6-Dec-13	20-Dec-13	20-Dec-13	3-Jan-14			14-Feb-14	
R																					
A																					
*PP	22	Post		NPCU/RFCIP2 /NS/13/2013	Cash Safes for 6 FSAs	12 000	51 300 000	NS	11-Oct-13	16-Oct-13	21-Oct-13	-	26-Oct-13	9-Nov-13	23-Nov-13	-	28-Nov-13			19-Dec-13	
R																					
A																					
*PP	23	Post		NPCU/RFCIP2 /NS/14/2013	6 units Generator for 6 FSAs	6 000	25 650 000	NS	11-Oct-13	16-Oct-13	21-Oct-13	-	26-Oct-13	9-Nov-13	23-Nov-13	-	28-Nov-13			19-Dec-13	
R																					
A																					
*PP	24	Post		NPCU/RFCIP2 /NS/15/2013	6 units Motorbikes for 6 FSAs	9 000	38 475 000	NS	5-Jun-13	10-Jun-13	15-Jun-13	-	20-Jun-13	4-Jul-13	18-Jul-13	-	23-Jul-13			13-Aug-13	
R																					
A																					
*PP	25	Prior		NPCU/RFCIP2 /ICB/04/2013	Supply & Installation of Solar Panel for 65 FSAs	227 300	971 707 500	ICB	11-Sep-13	16-Sep-13	21-Sep-13	28-Sep-13	3-Oct-13	14-Nov-13	28-Nov-13	5-Dec-13	4-Jan-14			4-Apr-14	
R																					
A																					

*PP	26	Prior		NPCU/RFCIP2 /NCB/04/2013	Supply of IT Equipment for 6FSAs	36 000	153 900 000	NCB	11-Sep-13	16-Sep-13	21-Sep-13	28-Sep-13	3-Oct-13	2-Nov-13	16-Nov-13	16-Nov-13	30-Nov-13			11-Jan-14	
R																					
A																					
*PP	27	Prior		NPCU/RFCIP2 /SS/03/2013	Accounting Software for 54 FSAs	81 000	346 275 000	SS	15-Jul-13	20-Jul-13	25-Jul-13	1-Aug-13	3-Aug-13	17-Aug-13	31-Aug-13	7-Sep-13	14-Sep-13			5-Oct-13	
R																					
A																					
*PP	28	Post		NPCU/RFCIP2 /NS/16/2013	Anti Virus for 54 FSAs	2 700	11 542 500	NS	5-Aug-13	10-Aug-13	15-Aug-13	-	20-Aug-13	3-Sep-13	17-Sep-13	-	22-Sep-13			13-Oct-13	
R																					
A																					
*PP	29	Post		NPCU/RFCIP2 /NS/17/2013	Internet Connectivity for 54 FSAs	5 400	23 085 000	NS	5-Sep-13	10-Sep-13	15-Sep-13	-	20-Sep-13	4-Oct-13	18-Oct-13	-	23-Oct-13			13-Nov-13	
R																					
A																					
	Component 1.2 Total (Planned)					**1 618 400**	**6 918 660 000**														
	Component 1.2 Total (Actual)																				
	Component-1.3-Establishment of TAA																				
*PP	30	Prior		NPCU/RFCIP2 /NCB/05/2013	Construction of Community Bank in Makeni	135 000	577 125 000	NCB	11-Jul-13	16-Jul-13	21-Jul-13	28-Jul-13	2-Aug-13	1-Sep-13	15-Sep-13	15-Sep-13	29-Sep-13			26-Feb-14	
R																					
A																					
*PP	31	Prior		NPCU/RFCIP2 /NCB/06/2013	Supply of Office Furniture for Makeni Community Bank	15 000	64 125 000	NCB	11-Oct-13	16-Oct-13	21-Oct-13	28-Oct-13	2-Nov-13	2-Dec-13	16-Dec-13	16-Dec-13	30-Dec-13			10-Feb-14	
R																					
A																					
*PP	32	Prior		NPCU/RFCIP2 /NCB/07/2013	Construction of Community Bank in Freetown	135 000	577 125 000	NCB	11-Jul-13	16-Jul-13	21-Jul-13	28-Jul-13	2-Aug-13	1-Sep-13	15-Sep-13	15-Sep-13	29-Sep-13			26-Feb-14	
R																					
A																					
*PP	33	Prior		NPCU/RFCIP2 /ICB/05/2013	Supply of 3 Units Station Wagon Vehicles for TAA	150 000	641 250 000	ICB	11-Jul-13	16-Jul-13	21-Jul-13	28-Jul-13	2-Aug-13	13-Sep-13	27-Sep-13	27-Sep-13	11-Oct-13			12-Dec-13	
R																					
A																					

*PP	34	Prior		NPCU/RFCIP2 /NCB/08/2013	Supply of Office Furniture for Freetown Community Bank	15 000	64 125 000	NCB	11-Oct-13	16-Oct-13	21-Oct-13	28-Oct-13	2-Nov-13	2-Dec-13	16-Dec-13	16-Dec-13	30-Dec-13			10-Feb-14	
R																					
A																					
*PP	35	Prior		NPCU/RFCIP2 /ICB/06/2013	Supply of IT Equipment for Community Banks in Makeni, Bo and Freetown (Desktop 10, Laptop 25, Giant Printer 5, Micra Cheque Printer 1, Giant Photocopier 4, Printer 6, Scanner 6)	243 300	1 040 107 500	ICB	6-Aug-13	11-Aug-13	16-Aug-13	23-Aug-13	28-Aug-13	9-Oct-13	23-Oct-13	23-Oct-13	6-Nov-13			18-Dec-13	
R																					
A																					
*PP	36	Prior		NPCU/RFCIP2 /ICB/07/2013	MIS Procurement & Installation	240 000	1 026 000 000	ICB	6-Aug-13	11-Aug-13	16-Aug-13	23-Aug-13	28-Aug-13	9-Oct-13	23-Oct-13	23-Oct-13	6-Nov-13			18-Dec-13	
R																					
A																					
	Component 1.3 Total (Planned)					**933 300**	**3 989 857 500**														
	Component 1.3 Total (Actual)																				
	Component 2: Project Management & Coordination																				
*PP	37	Prior		NPCU/RFCIP2 /ICB/08/2013	Supply of 5 Units Station Wagon Vehicles	275 000	1 175 625 000	ICB	6-Jun-13	11-Jun-13	16-Jun-13	23-Jun-13	28-Jun-13	9-Aug-13	23-Aug-13	23-Aug-13	6-Sep-13			18-Oct-13	
R																					
A																					
*PP	34	Prior		NPCU/RFCIP2 /NCB/09/2013	IT equipment for NPCU (Desktop 5, Laptop 5, Printer 6, Photocopier 2, Scanner 6)	58 700	250 942 500	NCB	5-Jul-13	10-Jul-13	15-Jul-13	22-Jul-13	27-Jul-13	26-Aug-13	9-Sep-13	9-Sep-13	23-Sep-13			4-Nov-13	
R																					
A																					
*PP	35	Prior		NPCU/RFCIP2 /NCB/10/2013	Supply of two units station wagon vehicles for BoSL	100 000	427 500 000	NCB	5-Jul-13	10-Jul-13	15-Jul-13	22-Jul-13	27-Jul-13	26-Aug-13	9-Sep-13	9-Sep-13	23-Sep-13			4-Nov-13	
R																					
A																					
*PP	36	Prior		NPCU/RFCIP2 /ICB/08/2013	Supply of Computers and Accessories for BoSL	450 000	1 923 750 000	ICB	5-Jul-13	10-Jul-13	15-Jul-13	22-Jul-13	27-Jul-13	7-Sep-13	7-Oct-13	7-Oct-13	21-Oct-13			20-Dec-13	
R																					
A																					
	Component 2 Total (Planned)					**883 700**	**3 777 817 500**														
	Component 2 Total (Actual)																				
Grand Total Goods & Works (Planned)						**4 771 000**	**20 396 025 000**														
Grand Total Goods & Works (Actual)																					

Section B: Services

SIERRA LEONE
PROCUREMENT PLAN FOR CONSULTING SERVICES
RURAL FINANCE AND COMMUNITY IMPROVEMENT PROGRAMME (RFCIP2)
Project Implementation Agency: Ministry of Finance and Economic Development

(Date): Jan 2013 -June, 2014

	SL No.	Package No.	Review by Bank Prior/Post	Activity Code	Procurement Number	Description of Services	Estimated Cost (USD)	Estimated Cost (SLL)	Method of Selection @	Advertising for EOI (Date)	TOR/Short list Finalized (Date)	RFP Final Draft forwarded to the IFAD(Date 0**	IFAD's No Objection for TOR Shortlist/Final REP (Date)**	RFP Issued (Date)	Proposals Received by the Project Authorities (Date)	Evaluation Finalized (Technical)/Cv	IFAD's No Objection on Technical Evaluation Report/CV	Combined Technical/ Financial Evaluation Report	IFAD's No Objection on Combined Technical/ Financial Evaluation Report/	Negotiations/Contract Award	Contract Number, Value and Currency	Name of Consultant/Nationality and Zip Code if USA	Services completed (date)	FR No.	Expenditure incurred to Date (Rs. Min)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Component 2: Programme Management and Coordination																									
*PP	1		Prior		NPCU/RFCIP2/LCS/01/2013	Special Studies of TAA	20 000	85 500 000	LCS	15-Sep-13	20-Sep-13	27-Sep-13	4-Oct-13	9-Oct-13	8-Nov-13	8-Dec-13	15-Nov-13	29-Nov-13	6-Dec-13	27-Dec-13			7-Feb-14		
R																									
A																									
*PP	2		Prior		NPCU/RFCIP2/LCS/02/2013	Impact Evaluation Studies	25 000	106 875 000	LCS	15-Dec-13	20-Dec-13	27-Dec-13	3-Jan-14	8-Jan-14	7-Feb-14	9-Mar-14	14-Feb-14	28-Feb-14	7-Mar-14	28-Mar-14			9-May-14		
R																									
A																									
*PP	3		Prior		NPCU/RFCIP2/LCS/03/2013	Other Studies	25 000	106 875 000	LCS	15-Nov-13	20-Nov-13	27-Nov-13	4-Dec-13	9-Dec-13	8-Jan-14	7-Feb-14	15-Jan-14	29-Jan-14	5-Feb-14	26-Feb-14			9-Apr-14		
R																									
A																									
*PP	4		Prior		NPCU/RFCIP2/LCS/04/2013	Audit of Financial Statements of TAA	25 000	106 875 000	LCS	15-Dec-13	20-Dec-13	27-Dec-13	3-Jan-14	8-Jan-14	7-Feb-14	9-Mar-14	14-Feb-14	28-Feb-14	7-Mar-14	28-Mar-14			9-May-14		
R																									
A																									
*PP	5		Prior		NPCU/RFCIP2/LCS/05/2013	Agric Finance Study	40 000	171 000 000	LCS	20-Jul-13	25-Jul-13	1-Aug-13	8-Aug-13	13-Aug-13	12-Sep-13	12-Oct-13	19-Sep-13	3-Oct-13	10-Oct-13	31-Oct-13			30-Dec-13		
R																									
A																									
*PP	6		Prior		NPCU/RFCIP2/LCS/06/2013	Market Survey in Interest Rates for CBs and FSAs	45 000	192 375 000	LCS	10-Jun-13	15-Jun-13	22-Jun-13	29-Jun-13	4-Jul-13	3-Aug-13	2-Sep-13	10-Aug-13	24-Aug-13	31-Aug-13	21-Sep-13			20-Nov-13		
R																									
A																									
*PP	7		Prior		NPCU/RFCIP2/LCS/07/2013	Audit of RFCIP2 Projrect Accounts	20 000	85 500 000	LCS	10-Aug-13	15-Aug-13	22-Aug-13	29-Aug-13	3-Sep-13	3-Oct-13	2-Nov-13	10-Oct-13	24-Oct-13	31-Oct-13	21-Nov-13			20-Jan-14		
R																									
A																									
Grand Total consultancies -Actual							**200 000**	**855 000 000**																	

PP: Target dates agreed as per Procurement Plan R: revision 1,2 etc. A: actual dates ¨RFP (Request for Proposal): Same as 'Bid Document' #Technical and Financial
** Applicable in case of 'Prior Review' by Fund FR No.: Fund Reference Number
@ State whether (i) Single firm or individual; or (ii) Competitive. If Competitive, then state whether Quality and Cost Based Selection (QCBS) or Quality Based Selection (QBS)

Appendix 9: Programme cost and financing

Introduction

1. This Annex describes the assumptions underlying the derivation of the programme costs and presents the estimated summary and detailed cost tables as well as the financing plan. Programme cost estimates have been made on the basis of price data collected by the design mission in October 2012.

Main assumptions

2. **Programme Duration**. The Rural Finance and Community Improvement Programme – Phase II will have duration of 9 years with a probable start date in the second half of 2013.

3. **Inflation and Exchange Rates**. Provision for inflation (price contingencies) has been made for all items financed by the programme. Note that price inflation has been in the double digits in recent years, declining to 12.5 percent in June 2012. By the following year, inflation is expected to decline to single digits, and by 2017, the forecasted inflation rate is 5.4 percent. For the purposes of this analysis, the annual local inflation rate has thus been set at an averaged 6 percent for the implementation period of the project. For international foreign inflation, annual average growth of 1.5 percent was applied to the project period (2013-2021) following World Bank projections. Inflation rates used in the calculation of price contingencies for the extension phase of the Programme are shown in Table 1.

4. The exchange rate is likely to remain around Le 4300 to USD 1. However, the currency will remain vulnerable to exogenous shocks such as the suspension of donor disbursements and any sharp decline in commodity prices. The base rate of exchange for this analysis has been set at Le 4,300 to USD 1.00, the prevailing rate in June 2012. Programme costs are presented in both Le and USD.

Table 1: Inflation Rates (%)

	PY 1	PY 2	PY 3	PY 4	PY 5	PY 6	PY 7	PY8	PY9
Local	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Foreign	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

5. **Expenditure Accounts.** The expenditure accounts, together with the tax assumptions, physical contingencies, and average foreign exchange rates used in the analysis, are given in Table 2 below. As is the practice with all externally financed projects in Sierra Leone, all goods and services are expected to be procured free of identifiable taxes and import duties (these are considered as part of the Government contribution to the programme). Overall taxes are estimated to amount USD 3.4 million or 9% of total programme costs.

6. Physical contingency allowances reflect expected increases in the base cost estimates of a Programme due to changes in quantities and/or methods of implementation. They are used in the case of Programmes in which investments are not precisely identified and costed during the formulation phase and where input quantities may vary during the implementation. They were applied to civil works only (5 percent).

7. Taxes include Good and Services Tax (15 percent) and withholding income tax (5 percent for Sierra Leone residents and 10 percent for non-residents). The Goods and Services Tax (GST) is exempted for civil works on public goods, and agricultural machinery. It is assumed that the Programme would be exempted from duties and taxes of imported goods, which are therefore, included in the Programme costs as a government contribution.

8. Base costs for goods and services purchased locally are based on local sales prices (market prices), including all domestic taxes. The expenditure accounts, together with the tax assumptions, physical contingencies, and average foreign exchange taxes used in the analysis are presented in Table 2 below.

Table 2: Expenditure Accounts

Expenditure Account Categories	Physical Contingency (%)	Foreign Exchange (%)	Taxes (%)
Investment			
Civil Works	10	0	18
Training and Workshops	0	0	15
Survey and Studies	5	0	15
Vehicles	0	60	15
National TA	0	0	15
International TA	0	75	0
Equipment	0	0	15
Funds (AFF and quasi-equity)	0	0	0
Consultant	0	75	0
Broadcasting campaign	0	0	0
Recurrent			
Salaries and Allowances	0	0	12
Operations and Maintenance	0	40	15

Programme costs

9. **Total costs**. Based on 2012 prices, the total investment, and incremental recurrent programme costs, including physical and price contingencies, is estimated at USD 38.1 million (Le 175.5 billion). Physical and price contingencies make up 7 percent of the Programme costs. The foreign exchange component is estimated at USD 2 million or about 5 percent of the total Programme costs.

Table 3: Summary of Project Cost

Sierra Leone
Rural Finance and Community Improvement Programme (RFCIP2)
Components Project Cost Summary

	(SLL '000)					(US$ '000)				
	Local	Foreign	Total	% Foreign Exchange	%Total Base Costs	Local	Foreign	Total	% Foreign Exchange	%Total Base Costs
A. Consolidation of the Rural Finance System										
Sustainable and autonomous rural financial institutions	110,929,056	4,982,360	115,911,416	4	73	25,738	1,156	26,894	4	73
Promotion of agricultural financial products through the AFF	21,550,000	-	21,550,000	-	14	5,000	-	5,000	-	14
Subtotal Consolidation of the Rural Finance System	132,479,056	4,982,360	137,461,416	4	86	30,738	1,156	31,894	4	86
B. Project Management and Coordination	18,507,787	3,327,406	21,835,193	15	14	4,294	772	5,066	15	14
Total BASELINE COSTS	150,986,843	8,309,766	159,296,609	5	100	35,032	1,928	36,960	5	100
Physical Contingencies	1,921,010	-	1,921,010	-	1	446	-	446	-	1
Price Contingencies	12,322,672	1,395,932	13,718,604	10	9	668	74	742	10	2
Total PROJECT COSTS	165,230,525	9,705,699	174,936,223	6	110	36,145	2,002	38,147	5	103

Financing

10. The RFCIP2 will be financed by IFAD (50% loan and 50% grant), the Government of Sierra Leone, NASSIT, IFC, and beneficiaries. The IFAD contribution will amount to USD 22.3 million in the form of a 50% loan and 50% grant. NASSIT contribution is USD 6.9 million, financing the AFF, the equity for Community Banks and the capitalisation of the APEX. IFC contribution of

USD 1 million will co-finance the APEX capitalisation. Government contribution is estimated at around USD 4.5 million to cover taxes and duties (12% of total costs) and the fixed assets contribution to the APEX. Approximately around USD 3.4 million (9% of total costs) would be provided by beneficiaries under Sub-component 1.1 in particular.

Table 4: Components by Financiers

Sierra Leone
Rural Finance and Community Improvement Programme (RFCIP2)
Components by Financiers
(US$ '000)

	The Government		IFAD		Beneficiaries		NASSIT		IFC		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
A. Consolidation of the Rural Finance System															
Sustainable and autonomous rural financial institutions	3,705	13.4	17,575	63.6	3,477	12.6	2,890	10.5	-	-	27,647	72.5	1,177	23,765	2,705
Promotion of agricultural financial products through the AFF	-	-	-	-	-	-	4,000	80.0	1,000	20.0	5,000	13.1	-	5,000	-
Subtotal Consolidation of the Rural Finance System	3,705	11.3	17,575	53.8	3,477	10.7	6,890	21.1	1,000	3.1	32,647	85.6	1,177	28,765	2,705
B. Programme Management and Coordination	760	13.8	4,740	86.2	-	-	-	-	-	-	5,501	14.4	825	3,915	760
Total PROGRAMME COSTS	4,465	11.7	22,316	58.5	3,477	9.1	6,890	18.1	1,000	2.6	38,147	100.0	2,002	32,680	3,465

Table 5: Financing Plan by Expenditure Accounts

Sierra Leone
Rural Finance and Community Improvement Programme (RFCIP2)
Expenditure Accounts Project Cost Summary

	(SLL '000)					(US$ '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
I. Investment Costs										
A. Civil works	16,570,226	-	16,570,226	-	10	3,845	-	3,845	-	10
B. Training and Workshops	10,236,250	-	10,236,250	-	6	2,375	-	2,375	-	6
C. Study	9,503,550	-	9,503,550	-	6	2,205	-	2,205	-	6
D. Vehicles	1,324,032	1,986,048	3,310,080	60	2	307	461	768	60	2
E. Technical Assistance										
National TA	-	-	-	-	-	-	-	-	-	-
International TA	4,137,600	-	4,137,600	-	3	960	-	960	-	3
Subtotal Technical Assistance	4,137,600	-	4,137,600	-	3	960	-	960	-	3
F. Equipment	15,665,342	-	15,665,342	-	10	3,635	-	3,635	-	10
G. Funds	46,879,870	-	46,879,870	-	29	10,877	-	10,877	-	29
H. Consultant	657,275	-	657,275	-	-	153	-	153	-	-
I. Radio broadcast Campaign	2,310,160	-	2,310,160	-	1	536	-	536	-	1
Total Investment Costs	107,284,305	1,986,048	109,270,353	2	69	24,892	461	25,353	2	69
II. Recurrent Costs										
A. Salaries and Allowances	34,216,961	-	34,216,961	-	21	7,939	-	7,939	-	21
B. Operation and Maintenance	9,485,577	6,323,718	15,809,296	40	10	2,201	1,467	3,668	40	10
Total Recurrent Costs	43,702,538	6,323,718	50,026,256	13	31	10,140	1,467	11,607	13	31
Total BASELINE COSTS	150,986,843	8,309,766	159,296,609	5	100	35,032	1,928	36,960	5	100
Physical Contingencies	1,921,010	-	1,921,010	-	1	446	-	446	-	1
Price Contingencies	12,322,672	1,395,932	13,718,604	10	9	668	74	742	10	2
Total PROJECT COSTS	165,230,525	9,705,699	174,936,223	6	110	36,145	2,002	38,147	5	103

Appendix 10: Financial and Economic Analysis

Background

1. This appendix presents the financial and economic analysis of the programme, providing an assessment of the likely impact of the programme interventions on beneficiaries. The analysis takes into consideration the estimated incremental benefits and costs of RFCIP2, with particular attention to the estimated impact of rural finance funds as the Agricultural Financing Facility and quasi-equity investment to Community Banks. Financial projections have also been undertaken for the sustainability and operational self-sufficiency of rural financial institutions, including analysis of the incremental profits to these institutions.

2. RFCIP2 has been conceived as a second phase programme to benefit the rural financial system in Sierra Leone today, through consolidation and emphasis on ensuring the sustainability and autonomy of rural financial institutions on a national scale.

3. The programme will specifically focus on eighty-seven (87) grassroots financial institutions (65 Financial Services Associations and 22 Community Banks); based on a feasibility study undertaken, the programme will support existing FSAs and CBs, and expand the network through establishment of an additional 11 FSAs and 5 CBs.

4. As a rural finance programme, importance has been placed on enhancing the access of the economically active poor (predominantly small farmers) to financial services for farm and off-farm activities, including working and investment capital; it is expected that at least 30% of the rural population will have access to financial services. Financial products have been developed that will foster agricultural production and commercialisation.

Programme area and beneficiaries

5. **Programme area**. Programme activities will be implemented on a national scale, for a total of 13 districts, including rural areas of the Western District outside Freetown. The level and scope of financing will be determined based on the coverage of the FSAs and CBs by district and catchment area. In particular Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the ongoing IFAD-supported operations, namely RFCIP, RCPRP and SCP-GAFSP, to build on what has already been achieved and to maximise impact, e.g. in targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

6. **Beneficiaries**. The main beneficiaries of RFCIP2 comprise: poor rural people, with a focus on those displaying a willingness and commitment towards adopting business-oriented principles; this further implies that the target group would be the economically active poor. This group would include those belonging to the following categories: (i) farmers (smallholders and medium-sized); and (ii) micro- and small-scale entrepreneurs. Special attention will be given to rural women and youth, using proven models and approaches tested under the RFCIP. It is expected that the network of the 87 grassroots financial institutions could benefit around 285,000 households; specifically, the households that will benefit from loans provision will be around 105,000.

Benefits

7. 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 financial services and products offered, the programme would have significant impact in terms of improved farming activities, agricultural production and the important increases to yields and productivity.

8. Project support to FSAs and CBs, including quasi-equity investment in the CBs and support from the APEX, will lead to the improved performance of these institutions, in terms of financial performance and quality of services. It is expected that improved services provision by FSAs and CBs will allow them to expand their outreach, offer more diversified products (particularly agricultural credit/ lending) and achieve higher profitability and viability which would ensure their sustainability and operational self-sufficiency. Other benefits will also include: (i) enhanced ability of CBs/FSAs to provide a range of agricultural financial products to small farmers and SMEs in the agricultural sector, (ii) improved integration of informal and semiformal institutions into the financial sector, (iii) improved capability of BOSL, MOFED to perform respective mandates; and (iv) improved provision of common services to the CB/FSA network through the APEX.

9. The expected principal benefits of RFCIP2 over the 9 year lifespan will be as follows: i) 285,000 rural households having access to at least 1 financial product; ii) 175,000 rural loans extended nationwide; iii) USD 72,000,000 in incremental lending to the rural sector; iv) 87 sustainable and profitable FSAs and CBs with improved financial performance by 2017; v) a sustainable apex organization 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.

Potential market and price effects

10. Through the programme, small farmers and SMEs active in the agricultural sector are expected to benefit from agricultural credit which will result in an expected increase in agricultural production and volume of marketed agricultural products. Whilst understanding that higher production levels could have a negative impact on producer prices if there is not sufficient demand, and despite the lack of a quantitative model of the economy, the programme does not expect any undue adverse effect on producer prices of the crops/ commodities targeted by the programme (lowland rice, cassava, cocoa, coffee and palm oil). The reasoning behind this assertion is that at present, there is unmet domestic demand (especially for rice) and export market potential (for tree crops and rice).

11. Sierra Leone imports about 200,000 mt of paddy rice equivalent to meet the consumption needs of the population annually. National Paddy Rice Production fluctuated during the last 10 years but steadily increased to close to 1,000,000 mt in 2009. The level of rice self-sufficiency rose from 65 percent in 2002, to 85 percent in 2009 (FAOSTAT data, see figure 1). The remainder must be imported at increasingly expensive prices in the current global market of high prices for food, including rice. The country's dependency on imported rice has been decreasing; however, it is still a net rice importer, with imports expected to reach approximately 100 000 mt in 2012, about 20 percent of requirements. See the table below for annual fluctuations.

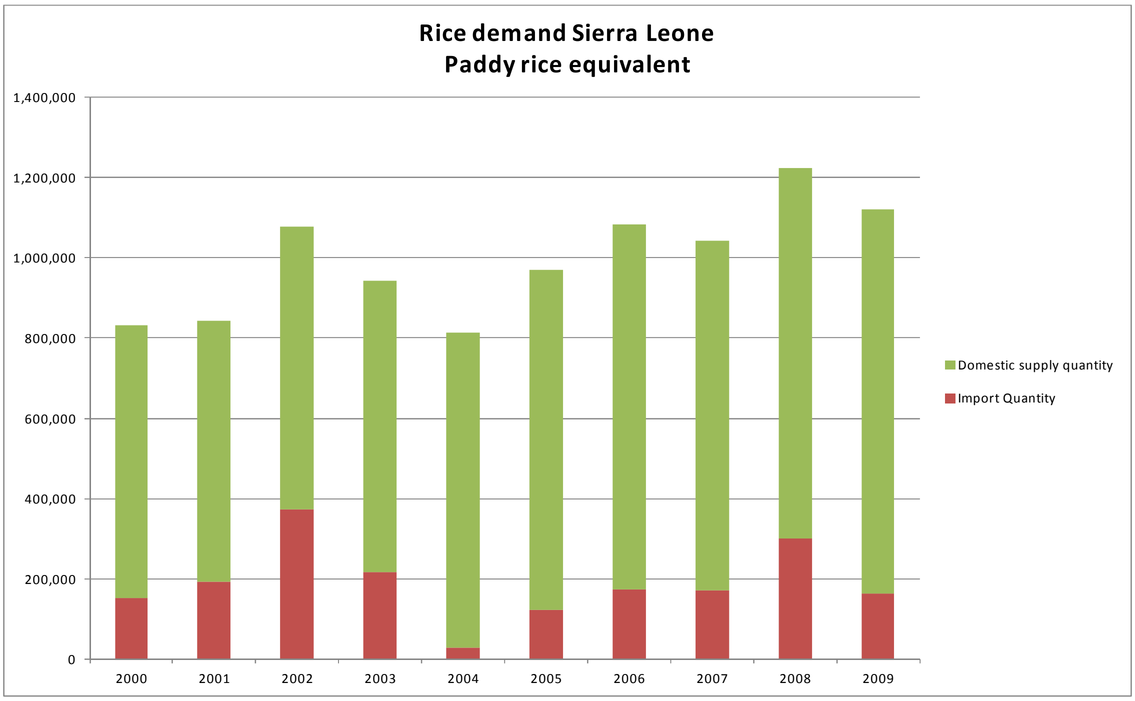
12. The price of rice, the main staple food in Sierra Leone, has seen a steady increase of more than on average 50% over the entire country. The segments most affected by this recent food price inflation are the low-income urban and peri-urban households and smallholder farmer. Female and elderly headed households are the most destitute. The promotion of domestic rice production is, therefore, a key element in the strategies for improving food security, stimulate economic growth and increase rural income. Efforts to support rice production programmes is one of the solutions to pull the country out of the import dependency.

13. According to the Commodity Market Monitoring Unit36, the market price for the locally produced rice has always been stable and buoyant. The price moved from Le.20, 000 – Le.25, 000 per bushel of 25kg of husk rice during the harvesting season. This price normally goes up

[36] CMMU is a national agency: http://www.cmmu.sl/

to Le.80, 000 per bushel of 25 kg for seed rice. As the staple food, rice has always commanded a high domestic demand. Despite the local demand, rice produced in Sierra Leone is also exported to Guinea. This export increases the deficit for domestic consumption, giving rise to annual importation of 120,000 to 150,000 tons of rice to supplement local consumption. Annual rice consumption is estimated at about 500,000 metric tons, which means that the country has a production deficit of about 200,000 metric tons valued at approximately $99 million for imported rice.

Figure 1: Rice demand in Sierra Leone



Source: FAOSTAT 2012

14. Historically from 1960 to 1975 production of rice has increased through expansion of land area and to some extent an increase in yield. In 1975 Sierra Leone is said to have experienced self-sufficiency in rice. Records of over 600,000 tons of paddy are reported at the end of the seventies. In the late eighties, production fell to an average of just above 500,000 tons; further declining to about 460,000 tons in the mid-1990s when the civil war was engulfing the entire nation. The lowest production (198,000 tons) was recorded at the peak of the civil war to in 1999. Since then, rice production has been increasing from 678,000 tons in 2000 to 956,000 tons in 2009.

15. Rice production in Sierra Leone is in the hands of small-scale farmers who produce barely enough for home consumption with little or none for the market. During the 2004/05 cropping season 56 percent of the households cultivated less than 1 ha of farm land while only 44 percent cultivated 1 ha and more. The rice field area per household ranged from 0.25 ha to 5.5 ha, with an average of 1.06 ha. (GOSL, 2006). The small scale farmers in Sierra Leone are generally resource poor with only the hoe, axe and cutlass as the main farming implements while labour is mainly supplied by family members thereby severely limiting their scale of production. On the other hand, the widespread use of unimproved varieties, limited use of fertilizer, coupled with unimproved cultural practices adversely affects rice production.

16. The programme will support agriculture production, through loans, and for rice in particular which is the main staple crop. The local supply is not fulfilling the increasing demand for the crop, thus the programme supported activities will not face significant risk of excess of supply or absorption capacity. Furthermore in a context of volatile prices increase the local supply will

avoid importing inflation and reduce the foreign exchange needs for imports. The projection is that RFCIP2 could support approximately 120,000 farmers annually. If 80% of the loans go to rice farmers who farm an incremental 1ha of wetland rice this would bring about 100,000 ha of additional rice paddy into production. With an average crop of 2 tons per acre this could produce 200,000 tons of rice paddy annually. With a paddy to rice conversion rate by smaller, inefficient mills of about 65%, this would add about 130,000 tons of local production to the market place. With an estimated shortfall of about 200,000 tons in the domestic market, this incremental production should be absorbed without a detrimental reduction in price.

Financial analysis

17. The objective of the financial analysis seeks to examine three important aspects of the programme:

(a) The financial profitability and viability of the APEX and financial institutions (CBs and FSAs) using 'representative' models;

(b) Determining the financial viability and incentives for the target group to engage in agricultural productive activities through three types of agricultural credit products facilitated by the Agricultural Financing Facility (AFF) and the capitalisation of the CBs: i) agricultural campaign loan; ii) agricultural rehabilitation loan; and iii) agricultural equipment/ processing loan; and

(c) The financial viability of a representative model for low land rice, the main staple crop.

Financial institutions - projections

18. The Programme makes provision for support and training to CBs and FSAs, allowing them to operate more effectively and contribute to the incremental long-term financial resources that can be translated into profitable on-lending. To achieve this, the programme also supports the long-term sustainability of the APEX as a service provider to these CBs and FSAs.

19. **APEX**. Under RFCIP2, the APEX will be registered under the OFS Act (2001). The APEX will be capitalised at about USD 8,9000,000, with USD 7,900,000 provided by external investors. The APEX will achieve operational sustainability in the second year of the programme (see table 1). The assumptions and the projections for the APEX are as follows:

(a) RFCIP2 will provide the USD 8,900,000 in share capital to meet the BOSL minimum requirements. USD 7,900,000 will be in cash from external investors and USD 1,000,000 by the transfer of fixed assets from RFCIP1.

(b) The rate of inflation will be 10% per annum.

(c) The foreign exchange rate is SL4,350/USD1.

(d) The number of participating RFIs in the APEX will rise to 65 FSAs and 22 CBs.

(e) The operating costs increase at the rate of inflation.

(f) The salaries of the APEX staff increase at the rate of inflation each year.

(g) Surplus working capital and AFF funds will be invested in short term treasury bills at 21% the first year and then declining by 1% per annum for each following year.

(h) Loan to the RFIs will be at a rate of 12% p.a.

(i) The APEX will start charging the FSAs and CBs for its technical assistance and advice in year 3 of operations.

(j) The RFCIP programme will support the APEX for the first 3 years, paying for all operating expenses excluding the loan loss provision, and the provision for depreciation.

(k) The earnings of the APEX and the RFIs will not be subject to income tax.

(l) The USD 3,000,000 for recapitalising the CBs will be disbursed immediately and the dividends thereon will be payable immediately.

(m) The rate of drawdown under the USD 3,000,000 AFF will be relatively rapid, given the likely strong demand for liquidity by the RFIs. Assuming no drawdowns in the first 6 months of operations, the AFF is projected to be fully utilised by year 4.

(n) The Board of Directors of the APEX will approve the payment of dividends to the external shareholders at a yield of 12% p.a. starting in year 4.

Tables 1 and 2: APEX projections

AB Projected Profit and Loss Statement							
Income	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Interest Income from Agric. Development RFF	132,000.00	195,600.00	317,760.00	357,907.20	354,005.28	350,515.56	359,328.33
Income from Service Fees (FSAs & CBs)			407,749.88	407,749.88	407,749.88	407,749.88	407,749.88
Income from Investment Sur-cap	851,400.00	701,400.00	464,400.00	377,613.60	363,592.08	348,336.29	316,095.56
Income from Invetsment (Grant+income)	-	243,131.07	512,116.21	879,607.25	909,820.27	923,331.34	929,095.61
Income from Invetsment - Community Bank	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00
Income from Rent			54,000.00	59,400.00	65,340.00	71,874.00	79,061.40
Income from Money Transfer			84,000.00	84,000.00	84,000.00	84,000.00	84,000.00
Other Sundry Income	42,570.00	46,827.00	51,509.70	56,660.67	62,326.74	68,559.41	75,415.35
Total Operating Income	**1,385,970.00**	**1,546,958.07**	**2,251,535.79**	**2,582,938.60**	**2,606,834.25**	**2,614,366.48**	**2,610,746.13**
Expenses							
Interest Expenses							
Loan Loss Provision	33,000.00	48,900.00	79,440.00	89,476.80	88,501.32	87,628.89	89,832.08
BoD expenses	15,400.00	15,785.00	16,179.63	16,584.12	16,998.72	17,423.69	17,859.28
Salaries & Benefits	515,300.00	566,830.00	623,513.00	685,864.30	754,450.73	829,895.80	912,885.38
Administrative Expense	32,916.28	33,739.19	34,582.67	35,888.49	37,249.03	38,666.75	40,144.24
Rent & Utilities	31,000.00	31,775.00	32,569.38	33,383.61	34,218.20	35,073.65	35,950.50
Travel & Transport	66,600.00	68,265.00	69,971.63	72,430.09	74,985.47	77,641.97	80,403.97
Training	501,800.00	451,800.00	298,400.00	136,100.00	141,710.00	67,881.00	74,669.10
Depreciation	195,203.00	95,244.00	103,165.00	103,166.00	94,417.00	94,418.00	94,419.00
Other	324,083.72	141,320.81	98,976.33	25,000.00	27,500.00	30,250.00	33,275.00
Total Expenses	**1,715,303.00**	**1,453,659.00**	**1,356,797.63**	**1,197,893.41**	**1,270,030.47**	**1,278,879.75**	**1,379,438.55**
Net Operating Income	**(329,333.00)**	**93,299.07**	**894,738.17**	**1,385,045.19**	**1,336,803.77**	**1,335,486.73**	**1,231,307.58**
Grant Income	**1,487,100.00**	**1,309,515.00**	**1,174,192.63**				
Dividend Paid				**960,000.00**	**960,000.00**	**960,000.00**	**960,000.00**
Total Income	**1,157,767.00**	**1,402,814.07**	**2,068,930.79**	**425,045.19**	**376,803.77**	**375,486.73**	**271,307.58**

APEX Projected Balance Sheet (in USD)							
BALANCE SHEET	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Cash and Due from Banks/ BoSL	1,385,970.00	1,742,161.07	2,541,982.79	1,011,299.99	1,048,964.02	1,133,682.81	1,120,699.70
AFF to CBs and FSAs	1,100,000.00	1,630,000.00	2,648,000.00	2,982,560.00	2,950,044.00	2,920,963.00	2,994,402.75
Loan Loss Reserves	(33,000.00)	(48,900.00)	(79,440.00)	(89,476.80)	(88,501.32)	(87,628.89)	(89,832.08)
Gross Fixed Assets	1,396,666.67	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00	1,580,000.00
Accumulated Depreciation	(195,203.00)	(290,447.00)	(393,612.00)	(496,778.00)	(591,195.00)	(685,613.00)	(780,032.00)
Long Term Investment with Community Bank	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Short Term Investment (grant+ income)		1,157,767.00	2,560,581.07	4,629,511.86	5,054,557.06	5,431,360.83	5,806,847.56
Short Term Investment from Surplus capital	3,870,000.00	3,340,000.00	2,322,000.00	1,987,440.00	2,019,956.00	2,049,037.00	1,975,597.25
CBs Clearing Account	1,381,576.18	1,519,733.80	1,671,707.18	1,838,877.90	2,022,765.69	2,225,042.26	2,447,546.49
TOTAL ASSETS	**11,906,009.85**	**13,630,314.87**	**15,851,219.04**	**16,443,434.96**	**16,996,590.45**	**17,566,844.01**	**18,055,229.66**
LIABILITIES AND EQUITY							
CBs Clearing Account	1,381,576.18	1,519,733.80	1,671,707.18	1,838,877.90	2,022,765.69	2,225,042.26	2,447,546.49
Deferred Income	-	-	-	-	-	-	-
TOTAL LIABILITIES	**1,381,576.18**	**1,519,733.80**	**1,671,707.18**	**1,838,877.90**	**2,022,765.69**	**2,225,042.26**	**2,447,546.49**
Share Capital	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00	9,000,000.00
Profit/Loss - Prior Years	-	(329,333.00)	(236,033.93)	658,704.24	1,083,749.43	1,453,017.13	1,820,994.12
Profit/Loss - Current Year	(329,333.00)	93,299.07	894,738.17	425,045.19	369,267.70	367,976.99	265,881.43
Donated Equity Current Year	1,853,766.67	1,492,848.33	1,174,192.63	-	-	-	-
Donated Equity Prior Year	-	1,853,766.67	3,346,615.00	4,520,807.63	4,520,807.63	4,520,807.63	4,520,807.63
Total Equity	**10,524,433.67**	**12,110,581.07**	**14,179,511.86**	**14,604,557.06**	**14,973,824.76**	**15,341,801.75**	**15,607,683.18**
Total Equity+Total Liability	**11,906,009.85**	**13,630,314.87**	**15,851,219.04**	**16,443,434.96**	**16,996,590.45**	**17,566,844.01**	**18,055,229.66**

20. The above forecast shows that the APEX likely will achieve operational sustainability in the second year of operations, and more certainly in the third year. Initially, the majority of the income will come from the dividends from the capitalisation of the CBs and the income from investments in short term Treasury Bills and in the interbank market. Progressively, though, more income will flow from the AFF interest until year 3, and from the service fees to be charged by the Non-Finance Department for its services. Additionally, there will be increasing income from the rental of space for the regional CBs, the 1% commission for facilitating money transfers through the network of CBs, and sundry income, including a cheque clearing fee from the CBs.

21. The loan portfolio is projected to rise quite quickly after its initial 6 month hiatus at the start of RFCIP2. The rate of increase is projected to increase 48% in year 2, and 62% in year 3, and then stabilise at around the ceiling of USD 3,000,000 thereafter. It is worth noting, though, that in year 4 (2016) and in the following years, the APEX will actually not derive any income from the capitalisation of the CBs and the loans to the FSAs and CBs, since the projected income from these investments, 12%, is from 2016, thereafter matched by the presumed payment of dividends on the amount of external investments (US8 million). Thus after 2016, the main source of income will be the interest earned on its investment portfolio and equity that has been accumulated during the first 3 years.

22. The build-up of the net equity in the first 3 years of operations is due to the reimbursement of the APEX's operating expenses by RFCIP2. This amounts to almost US$4,000,000. This increase has been supplemented by the re-investment of the interest earned from the short term investments. Consequently, the net worth of the APEX rises from US9,000,000 at registration to almost US$16,000,000 at the end of the third year (2016). It is this compilation of net equity and, therefore, investable funds that enables the APEX to access commercial debt or equity at a rate that meets their earnings requirements and pay a real rate of return (inflation +2%), while simultaneously making funding available to CBs and FSAs at market determined rates. This permits these RFIs to earn a reasonable spread on their loan portfolios, thereby expediting the build-up of their respective capital bases and liquid assets.

23. The projection indicates that after the initial start-up costs, including the high initial level of training, the operational expenses remain relatively stable after the second year. The main cause of the limited increase in these costs is salaries and benefits. The costs driver of this expense is an increase in staff in the first year and then only a slight rise in headcount thereafter. The main increase in salary costs is the annual cost of living adjustments (10%). The somewhat fixed nature of the expense base partially offsets the declining revenue from investment income as the projected interest rate to be received on Treasury Bills declines by 1% p.a.

24. Over the time period 2014 to 2019, the Return on Assets (ROA) is projected to rise from 0.68% to a healthy 6.8%, pre dividend payment. Concurrently, the Return on Equity (ROE) rises from 0.77% to 7.89 pre dividend payment over the same period. These ratios will peak in 2015 and then decline gradually thereafter. The narrowness in the spread between these 2 ratios is due to the relatively low level of debt on the balance sheet of the APEX.

25. Sensitivity analysis indicates that while only a limited change in some of the projected activities would plunge the APEX into a loss in the second year of operations, the projected earnings in year 3 (2015) are much more robust. In that year gross income could decline by 35% from its projected level and the APEX would remain operationally sustainable. Similarly, the basic operating costs could increase by more than 50% without putting the APEX into a deficit position. Concurrently, gross revenue could decline by 20% and operating costs rise by almost 30% and the APEX would remain profitable.

26. The above analysis indicates that the proposed structure of the APEX will result in it being operationally sustainable for the foreseeable future. In the very long term, if interest rates on

investments decline to single digits and stay there, consideration may have to be given to raising the interest rates on loans to the FSAs and CBs, or investing in slightly more risky assets. The reduction of future operating costs also would need to be considered.

27. **Community Banks**. The RFCIP2 will be supporting 2 types of CBs, ones that already are operational and others that will be started under the programme.

28. *The Operational Sustainability for Newly Established Community Banks.* Detailed below is a projection for the establishment of a new CB. This projection is based on the following assumptions:

(a) The rate of inflation is 10%.

(b) The CB borrows from the AFF at a rate of inflation plus 2%, projected here as 12%.

(c) The interest rates the CB charges on loans is 30% flat for a loan with a 6 month maturity, plus a commission of 2% of the loan amount. This matches the rates currently charged by the existing CBs.

(d) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings and on savings. In year 3, the rate of reimbursement declines to 50% of the above defined operating expenses.

(e) The average growth rate of the loan portfolio is 22.5%

(f) The loan loss provision is 5%.

(g) The local shareholders will contribute approximately USD10,000 in paid-up capital. RFCIP will provide approximately USD105,000 in capital expenditure as a capital investment. An external shareholder will invest about USD 170,0000 as capital in the form of shares. This external capital pays a dividend of 12% in year 1.

Tables 3 and 4: Start-up CB projections

Income statements		2013	2014	2015	2016	2017
Interest and fee income from loans						
	Interest Income from Loans	31,917,315.00	123,719,019.69	297,059,127.04	472,485,646.84	626,867,109.53
	Loan Fees	7,715,610.00	40,969,393.01	105,496,147.31	191,612,586.47	238,933,545.46
Income from other finance-related services						
Income from investments		120,851,500.00	45,824,528.40	47,412,750.00	42,840,000.00	14,700,000.00
Total Operating Income		**160,484,425.00**	**210,512,941.10**	**449,968,024.35**	**706,938,233.31**	**880,500,655.00**
Interest and fee expense on Agric RFF debt		-			37,122,785.92	19,122,785.92
Interest and fee expense on RFCIP+GAFSP RFF debt		-				
Interest Expense on Deposit		4,200,000.00	4,620,000.00	5,082,000.00	5,590,200.00	6,149,220.00
Loan loss provision expense		2,428,130.00	12,061,954.80	31,398,633.87	44,745,481.24	50,500,961.25
Administrative expense -- Personnel		137,424,360.00	167,158,860.00	201,555,360.00	235,951,860.00	258,124,098.00
Service Fee - AB		-			53,573,803.47	53,573,803.47
Other administrative expense		**63,242,330.90**	**59,242,330.90**	**62,777,930.90**	**67,320,650.90**	**72,411,914.90**
	office materials and supplies	3,840,000.00	3,840,000.00	4,608,000.00	5,529,600.00	6,635,520.00
	transportation and travel	4,050,000.00	4,050,000.00	4,860,000.00	5,832,000.00	6,998,400.00
	BoD Related Expenses	3,000,000.00	3,000,000.00	3,000,000.00	3,300,000.00	3,300,000.00
	publicity and publications	4,200,000.00	4,200,000.00	5,040,000.00	6,048,000.00	7,257,600.00
	repairs and maintenance	1,200,000.00	1,200,000.00	1,440,000.00	1,728,000.00	2,073,600.00
	utilities	4,388,000.00	4,388,000.00	5,265,600.00	6,318,720.00	7,582,464.00
	depreciation	38,564,330.90	38,564,330.90	38,564,330.90	38,564,330.90	38,564,330.90
	other	4,000,000.00	0			
Total Operating Expenses		**207,294,820.90**	**243,083,145.70**	**300,813,924.77**	**444,304,781.53**	**459,882,783.54**
NET OPERATING PROFIT (LOSS)		**(46,810,395.90)**	**(32,570,204.60)**	**149,154,099.58**	**262,633,451.78**	**420,617,871.46**
Cash donations for financial services		162,102,360.00	187,836,860.00	112,884,480.00		
TOTAL CONSOLIDATED PROFIT/LOSS		**115,291,964.10**	**155,266,655.40**	**262,038,579.58**	**262,633,451.78**	**420,617,871.46**
Dividend Paid		**87,720,000.00**	**87,720,000.00**	**87,720,000.00**	**81,611,126.25**	**67,214,307.89**
Net Income		**27,571,964.10**	**67,546,655.40**	**174,318,579.58**	**181,022,325.54**	**353,403,563.57**

		2013	2014	2015	2016	2017
ASSETS						
	Notes & Coins	254,999,905.00	271,186,956.03	107,059,321.61	150,882,137.51	205,188,908.32
	Balance with Apex Bank	100,000,000.00	77,000,000.00	57,757,750.00	45,254,000.00	49,779,400.00
	Short-term investments in market instruments	425,501,520.00	218,212,040.00	225,775,000.00	204,000,000.00	70,000,000.00
	Loan Portfolio	242,813,000.00	603,097,740.07	1,046,621,129.05	1,491,516,041.21	1,683,365,374.86
	(Loan loss reserve)	(2,428,130.00)	(12,061,954.80)	(31,398,633.87)	(44,745,481.24)	(50,500,961.25)
	Long-term investments					
	Fixed Assets	457,126,545.00	457,126,545.00	457,126,545.00	473,026,545.00	525,026,545.00
	Accumulated depreciation	(38,564,330.90)	(77,128,661.80)	(115,692,992.70)	(154,257,323.60)	(192,821,654.50)
	Net fixed assets					
TOTAL ASSETS		**1,439,448,509.10**	**1,537,432,664.50**	**1,747,248,119.08**	**2,165,675,918.88**	**2,290,037,612.44**
LIABILITIES						
	Savings accounts: voluntary	65,000,000.00	71,500,000.00	78,650,000.00	86,515,000.00	95,166,500.00
	Current Account	100,000,000.00	110,000,000.00	121,000,000.00	133,100,000.00	146,410,000.00
	Time deposits	5,000,000.00	5,500,000.00	6,050,000.00	6,655,000.00	7,320,500.00
	Loans: AFF				309,356,549.36	159,356,549.36
	Short-term Borrowings- RFF					
TOTAL LIABILITIES		**170,000,000.00**	**187,000,000.00**	**205,700,000.00**	**535,626,549.36**	**408,253,549.36**
EQUITY						
	Paid-in equity from shareholders	53,750,000.00	67,187,500.00	83,984,375.00	104,980,468.75	131,225,585.94
	Shareholder-Fixed Asset	457,126,545.00	457,126,545.00	457,126,545.00	457,126,545.00	457,126,545.00
	Donated equity -- prior years, cumulative	-	162,102,360.00	349,939,220.00	462,823,700.00	462,823,700.00
	Donated equity -- current year	162,102,360.00	187,836,860.00	112,884,480.00	-	-
	Prior years' retained earnings/losses	-	(134,530,395.90)	(254,820,600.50)	(193,386,500.92)	(12,364,175.38)
	Current year retained earnings/loss	(134,530,395.90)	(120,290,204.60)	61,434,099.58	181,022,325.54	353,403,563.57
	New Shares	**731,000,000.00**	**731,000,000.00**	**731,000,000.00**	**617,482,831.15**	**489,568,843.95**
TOTAL EQUITY		**1,269,448,509.10**	**1,350,432,664.50**	**1,541,548,119.08**	**1,630,049,369.53**	**1,881,784,063.08**
TOTAL LIABILITIES AND EQUITY		**1,439,448,509.10**	**1,537,432,664.50**	**1,747,248,119.08**	**2,165,675,918.88**	**2,290,037,612.44**
		-	-	-	-	-

29. The above projection indicates that a typical start up CB will reach operational sustainability in three years, (even with paying dividends on the new capital), with RFCIP2 reimbursing the operating costs (except depreciation, interest and the loan loss provision) in full for the first 2 years, and 50% in year 3. Thereafter, the CBs will be responsible for their own operating costs and for purchasing and upgrading any fixed assets.

30. The CB will be fully capitalised at the time of registration. Loan disbursement is not anticipated until the second half of the first year of operations. During this start-up phase, the CB, with advice from the Cash Management Unit of the APEX's Banking Department, will invest these funds in Treasury Bills and earn interest thereon, currently projected at 21% p.a. and then declining by 1% annually. This income will accrue to the CB and help build its capital base. The progressive liquidation of these short term investments will provide sufficient liquidity to the CB to fund the growth in the loan portfolio for the first three years. Sufficient cash and short term investments will be held by the CBs to meet the BOSL liquidity requirements.

31. After a 6 month hiatus after the registration of the CB, the loan portfolio is portfolio is forecast to grow 148% in the second year, 74% in the third year, 43% in the fourth year and then 15% in the fifth year. This initial rapid growth of the portfolio, followed by a flattening out of the growth curb in year 5, is typical of small RFIs. At the end of year 5 (2017) it is expected that the CB will be making 2,200 loans, with a maturity of 6 months, annually. With on-going shareholder investments and retained earnings, it is expected that eventually, each CB will reach 10,000 members, of which about 50% are forecast to be IFAD target clients. Many of the activities typically undertaken by women, particularly petty trading, will be funded from the CBs' regular financing activities.

32. Borrowings from the AFF in any meaningful amount is not projected until year 4, as the surplus capital is progressively deployed to financing the loan portfolio. In the interests of being conservative, it is assumed that the equity could be requested to be bought out in year 4 and repayment over 3 years. . Should this not occur, more liquidity would be available for lending. A gradual build-up of the deposits and savings is projected with an annualised growth rate of 10%. Most likely, the small local businesses and salaried employees will provide most of the current accounts, while small farmers probably will save through savings accounts that will pay interest at 6% p.a.

33. The staffing will remain relatively constant for the first 5 years. In the first year the number of employees will be 5. Thereafter, one additional loan officer will be recruited in years 2 and 4 to service the growing loan portfolio. These costs include various fringe benefits (including a housing allowance for certain staff and their NASSIT contributions). The basic increase in these costs is the result of the aforementioned hiring of staff.

34. In year three, the start-up CB will earn a return on equity of 9.7%, and a return on total assets of 8.5%. These ratios progressively increase to a 22.3% return on equity and a 18.4% return on assets ratio in year 5 (2017). This relatively narrow spread between these ratios is due to low leverage ratio between debt and equity which is a combination of BOSL requirements and prudent banking. The sharp jump in net income in years 3 and 4 primarily is due to the increase in the loan portfolio outstanding due to the hiring of an additional loan officer, and the relatively fixed nature of the operating expenses, in particular salaries. Dividend distributions also are declining due to the abovementioned conservative treatment of the capital.

35. Sensitivity analysis indicates that if income from the loan portfolio (interest and commissions) fall by 15% in 2015, the typical start-up will be able to pay the projected dividend. . Similarly if the total operating costs rise by 15% without any correspondent increase in income, the CB will still be able to meet the projected dividend payment.. Similarly, a tripling of the loan loss provision would not place the dividend at risk.

36. The above analysis indicates that a start-up CB has a reasonable chance of achieving operational sustainability by year 3, and more certainly by year 4, after allowing for the

dividend. Thereafter, with the loan portfolio growing at a modest rate, and the fixed cast nature of its operational expenses, this profitability, and therefore increase in the capital base, is expected to steadily improve.

37. *The Projected Operational Sustainability for Existing Community Banks Participating in RFCIP2.* The financial positions of the established CBs[37] that the RFCIP2 will be supporting are substantially different from the start-up CBs discussed above. Detailed below are the financial projections of a typical CB. The projections are based on the following assumptions:

(a) The rate of inflation is 10%.

(b) The CB borrows from the AFF at a rate of inflation plus 2%, projected here as 12%.

(c) The interest rates the CB charges on loans is 30% flat for a loan with a 6 month maturity, plus a commission of 2% of the loan amount. This is in line with the current rates being charged by the CBs.

(d) Interest on both the equity and the AFF will be payable in the first year, assuming a worst case scenario.

(e) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings and on savings.

(f) The average growth rate of the loan portfolio is 15%, except for year 2.

(g) The loan loss provision is 3-5%.

(h) The typical CB already will have received at least USD 10,000 from local shareholders, and will have received grant capital in the form of fixed assets and other grant capital in cash. The CB will receive a capital injection from NASSIT, or another external funder of Le 316,000,000 (about USD 73,000) so that their net equity meets the BOSL requirement of Le 1,000,000,000. This capital, will incur a dividend cost of 12% from the time of drawdown.

[37] Based on the Bambara Community Bank.

Tables 5 and 6: Existing CB projections

Income statements		**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Interest and fee income from loans		**375,876,071.22**	**542,362,464.50**	**696,193,482.59**	**897,128,733.07**	**1,180,157,541.75**	**1,505,532,984.97**
	Interest Income from RFCIP+GAFSP RFF	63,375,000.10	71,666,666.67	71,666,666.67	71,666,666.67	71,666,666.67	71,666,666.67
	Interest Income from Other Loans	268,188,645.51	402,282,968.26	545,949,561.92	735,205,474.30	1,004,813,769.16	1,314,767,418.99
	Loan Fees	28,886,850.00	47,663,302.50	54,812,797.88	63,034,717.56	72,489,925.19	83,363,413.97
	Service Charges	13,925,575.61	18,799,527.07	21,619,456.13	24,862,374.55	28,591,730.73	32,880,490.34
	Late Fee on Loans	1,500,000.00	1,950,000.00	2,145,000.00	2,359,500.00	2,595,450.00	2,854,995.00
Income from other finance-related services		-	-	-	-	-	-
Income from Investment							
Total Operating Income		**375,876,071.22**	**542,362,464.50**	**696,193,482.59**	**897,128,733.07**	**1,180,157,541.75**	**1,505,532,984.97**
Interest and fee expense on RFF debt		31,687,500.05	35,833,333.33	77,973,333.33	139,778,666.67	242,279,200.00	356,228,970.67
Interest Expense on Deposit		6,433,359.55	7,076,695.50	7,784,365.05	8,562,801.56	9,419,081.71	10,360,989.89
Loan loss provision expense		46,144,165.77	51,944,444.44	67,641,666.67	77,223,055.56	95,718,316.67	126,081,960.00
Administrative expense -- Personnel		157,820,280.00	249,675,480.00	291,696,480.00	241,590,910.92	274,207,996.92	282,434,236.82
Service Fee - AB		-	-	-	53,573,803.47	53,573,803.47	53,573,803.47
Other administrative expense		**101,290,364.59**	**101,726,061.60**	**106,501,689.99**	**99,096,651.36**	**145,216,207.55**	**143,780,161.97**
	rent	-	-	-	-	-	-
	office materials and supplies	-	5,000,000.00	5,500,000.00	5,775,000.00	6,063,750.00	6,366,937.50
	transportation and travel	8,184,000.00	4,983,000.00	9,002,400.00	5,232,150.00	9,452,520.00	5,493,757.50
	BoD Related Expenses	1,925,000.00	2,117,500.00	2,329,250.00	2,445,712.50	2,567,998.13	2,696,398.03
	publicity and publications	495,000.00	544,500.00	598,950.00	628,897.50	660,342.38	693,359.49
	staff training	-	-	-	-	-	-
	repairs and maintenance	5,375,700.00	5,913,270.00	6,504,597.00	6,829,826.85	7,171,318.19	7,529,884.10
	utilities	-	12,000,000.00	12,600,000.00	13,230,000.00	13,891,500.00	14,586,075.00
	depreciation	58,958,833.80	42,180,777.73	38,080,777.73	29,880,777.73	68,580,777.73	67,744,349.16
	other	26,351,830.79	28,987,013.87	31,885,715.26	35,074,286.78	36,828,001.12	38,669,401.18
Total Operating Expenses		**343,375,669.96**	**446,256,014.88**	**551,597,535.04**	**619,825,889.54**	**820,414,606.31**	**972,460,122.81**
NET OPERATING PROFIT (LOSS)		**32,500,401.25**	**96,106,449.62**	**144,595,947.55**	**277,302,843.54**	**359,742,935.43**	**533,072,862.16**
Cash donations for financial services		**157,820,280.00**	**309,220,763.87**	**360,117,392.26**			
TOTAL CONSOLIDATED PROFIT/LOSS		**190,320,681.25**	**405,327,213.49**	**504,713,339.80**	**277,302,843.54**	**359,742,935.43**	**533,072,862.16**
Dividend Paid			**36,120,000.00**	**61,920,000.00**	**61,920,000.00**	**60,570,855.71**	**51,827,664.92**
Net Income		**190,320,681.25**	**369,207,213.49**	**442,793,339.80**	**215,382,843.54**	**299,172,079.72**	**481,245,197.24**

		Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
ASSETS							
	Notes & Coins	32,520,666.69	329,663,726.19	14,325,723.97	70,405,099.01	114,754,737.97	89,169,010.25
	Balance with Apex Bank	45,528,933.36	50,081,826.70	35,000,000.00	35,000,000.00	45,000,000.00	47,000,000.00
	Short-term investments in market instruments	322,633,103.44	308,613,685.46	100,000,000.00	200,000,000.00	200,000,000.00	200,000,000.00
	Total loan portfolio	922,883,315.49	1,038,888,888.89	2,072,827,162.02	2,217,920,307.82	2,550,814,949.09	3,128,471,744.23
	Loan from RFF	211,250,000.33	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89
	Other Loans from bank own capital	711,633,315.16	800,000,000.00	1,833,938,273.13	1,979,031,418.93	2,311,926,060.21	2,889,582,855.34
	(Loan loss reserve)	(46,144,165.77)	(51,944,444.44)	(67,641,666.67)	(77,223,055.56)	(95,718,316.67)	(126,081,960.00)
	Overdraft	228,864,820.30	263,194,543.35	302,673,724.85	348,074,783.58	400,286,001.12	460,328,901.28
	Other short-term assets						
	Long-term investments						
	Inter Branch/Due from own officers						
	Fixed Assets	371,901,505.61	396,301,505.61	396,301,505.61	406,301,505.61	624,201,505.61	684,201,505.61
	Accumulated depreciation	(98,421,814.71)	(140,602,592.44)	(178,683,370.17)	(208,564,147.90)	(277,144,925.63)	(344,889,274.79)
	Net fixed assets	273,479,690.90	255,698,913.17	217,618,135.44	197,737,357.71	347,056,579.98	339,312,230.82
TOTAL ASSETS		**1,924,332,344.90**	**2,386,744,176.20**	**2,921,128,116.44**	**3,277,701,696.02**	**3,935,057,193.79**	**4,609,171,161.37**
LIABILITIES							
	Savings accounts: compulsory						
	Savings accounts: voluntary	102,222,659.13	112,444,925.05	123,689,417.55	136,058,359.30	149,664,195.24	164,630,614.76
	Current Account	543,190,674.62	597,509,742.08	657,260,716.29	722,986,787.92	795,285,466.71	874,814,013.38
	Time deposits	5,000,000.00	5,500,000.00	6,050,000.00	6,655,000.00	7,320,500.00	8,052,550.00
	Loans: RFF	211,250,000.33	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89	238,888,888.89
	Short-term Borrowings						
	Deferred Income/ Grant	273,479,690.90	234,010,024.28	204,062,579.89	184,815,135.49	320,367,691.09	266,113,818.12
	Other short-term liabilities						
	Other long-term liabilities						
TOTAL LIABILITIES		**1,135,143,024.99**	**1,188,353,580.30**	**1,229,951,602.61**	**1,289,404,171.60**	**1,511,526,741.93**	**1,552,499,885.15**
EQUITY							
	Paid-in equity from shareholders	159,976,250.00	199,970,312.50	249,962,890.63	312,453,613.28	390,567,016.60	488,208,770.75
	Donated equity -- prior years, cumulative	376,760,600.00	534,580,880.00	843,801,643.87	1,203,919,036.13	1,223,166,480.53	1,281,113,924.92
	Donated equity -- current year	157,820,280.00	309,220,763.87	360,117,392.26	19,247,444.40	57,947,444.40	54,253,872.97
	Prior years' retained earnings/losses	(209,118,211.34)	(176,617,810.09)	(116,631,360.47)	(33,955,412.92)	181,427,430.61	480,599,510.34
	Current year retained earnings/loss	32,500,401.25	59,986,449.62	82,675,947.55	215,382,843.54	299,172,079.72	481,245,197.24
	ICS Grant Equity	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00	271,250,000.00
	New Equity	-	**516,000,000.00**	**516,000,000.00**	**516,000,000.00**	**470,423,910.67**	**384,513,955.53**
TOTAL EQUITY		**789,189,319.91**	**1,198,390,595.90**	**1,691,176,513.83**	**1,988,297,524.42**	**2,423,530,451.86**	**3,056,671,276.22**
TOTAL LIABILITIES AND EQUITY		**1,924,332,344.90**	**2,386,744,176.20**	**2,921,128,116.44**	**3,277,701,696.02**	**3,935,057,193.79**	**4,609,171,161.37**

38. The typical existing CB already is operationally sustainable, although with a ROE of 4.12% and a ROA of 1.69%. It also does not meet the BOSL minimum capital requirement. The injection of the quasi-equity capital will bring the equity into compliance with the BOSL requirements. Assuming the capital injection is activated in mid-2013, the funds are projected to be rapidly disbursed to meet pent-up demand, resulting in a sharp increase in the loan portfolio in 2014. Additional funding for this growth comes from the projected reimbursement of operating costs (except, depreciation, the loan loss provision and interest expenses), which will provide additional liquidity of Le. 669,000,000 over 2 years. With this incremental liquidity available, it is anticipated that the typical existing CB will not need to drawdown from the AFF until towards the end of year 1 (2013), increasing to its exposure from the original borrowing from the RFF. It is projected that by 2017, the number of loans outstanding will have risen from its current base of about 1,100, to approximately 3,900, of which more than half will be small farmers whose loans are funded by the AFF and the RFF.

39. At the same time, savings deposits are projected to grow only modestly, rising only 10% annually, thereby highlighting the need for external funding to increase the loan portfolio.

40. This incremental funding has a strong impact on the profitability, with the loan portfolio almost doubling in 2014 (year 2 of RFCIP2). This growth will be spurred by the hiring of additional loan officers. Furthermore, the profitability is leveraged by the relatively fixed nature of the operational and administrative expenses, which will increase relatively slowly compared to the growth in the portfolio.

41. By the end of the second year of RFCIP2 (2014), the mature CBs are expected to be solidly profitable, with a ROE of 8.6% and a ROA of 4.9%. This will rise sharply thereafter as the portfolio continues to expand and is funded by a progressively falling of their weighted average cost of capital; as retained net income is reinvested into the business. By year 5 (2017) the ROE is projected to be about 17.4%%, and an ROA of about 11.6%.

42. Sensitivity analysis indicates that in year 2 (2014), the projected operating income could decline by 10% and the mature CB would continue to meet its dividend obligations. Similarly if total operating expenses rose by 12%, while income remained unchanged the dividend is still safe. Likewise a doubling of the loan loss provision would still leave the mature CB operationally sustainable after the payment of the dividend.

43. For both the existing and the start-up CBs, there is a continued need for technical assistance and support. Training at both the FSA and CB level will cover the following topics with a focus on agricultural lending: principles of banking and finance; credit initiation, in particular cash flow lending; savings mobilisation; accounting; internal control reconciliation procedures; loan recovery management; market knowledge and development; business planning; how to analyse their own institution's performance; and compliance with BOSL reporting requirements. Training in governance also will be given to board members. The training for the staff of the FSAs and CBs, primarily the managers and the loan officers, will be provided through structured training courses, with on-going training on a periodic basis over the life of the programme. For the training in governance, the Chairmen of the respective Boards of Directors will attend a formal training session, in conjunction with the managers of the FSAs/CBs, who then will provide training to the other Board members on a train the trainers basis. The above training will be provided by both external and national consultants, who will prepare and deliver training courses in these subjects. The vast majority of this training will be concentrated in the first two years of RFCIP2, so as to establish a sound basis of knowledge and operating principles before the RFIs move into a strong growth mode. Before any new CBs or FSAs are opened for business, the staff will have received at least basic training in operating their respective CB and FSA model.

44. **FSAs**. The incremental net income and projected profit and loss statements which indicate the FSA's ability to achieve operational self-sufficiency are provided below[38] and are based on the following assumptions:

(a) The rate of inflation is 10%.

(b) The interest rates the FSA charges on loans is 2.5% per month flat for a loan with a 6 month maturity, plus a commission of 1% of the loan amount. The current market rates being charged by the existing FSAs is 2.5%-3.0% per month.

(c) The RFCIP2 programme will reimburse all operating expenses for the first two years except for the provision for doubtful debts, the provision for depreciation and the interest paid on borrowings.

(d) The average growth rate of the loan portfolio is 52%, although on a declining trend.

(e) The loan loss reserve is 3% of the gross loan portfolio outstanding.

(f) The FSA will be able to borrow up to the limit of its paid-in share capital from the AFF. The borrowings will incur an interest charge of 12%.

[38] A representative FSA was used for this analysis

Tables 7 and 8: FSA projections

Bum FSA						
	Un Adudited	Projections				
Profit & Loss	Sep-12	**2012**	**2013**	**2014**	**2015**	**2016**
Income	**Actual**					
Income from Loan	6,505,300.00	16,104,214.91	66,861,416.15	115,952,111.69	150,511,789.46	195,211,491.99
Income from Fees and charges	8,301,900.00	1,496,899.86	5,398,204.22	14,893,280.49	28,426,922.51	46,498,246.29
Total Income (A)	**14,807,200.00**	17,601,114.77	72,259,620.37	130,845,392.17	178,938,711.97	241,709,738.28
Expenditure						
Personnel Expenditure (B)	**16,813,667.00**	**25,613,667.00**	**54,450,000.00**	**60,258,000.00**	**84,433,800.00**	**101,763,420.00**
Salary & Wages	16,813,667.00	22,313,667.00	49,500,000.00	54,780,000.00	76,758,000.00	92,512,200.00
NASSIT		3,300,000.00	4,950,000.00	5,478,000.00	7,675,800.00	9,251,220.00
Financial Expenditure (C)	**529,295.00**	**7,479,363.77**	**12,992,823.31**	**20,781,167.97**	**26,342,649.12**	**31,747,624.33**
Loan Loss Provision	529,295.00	1,806,663.77	5,051,043.31	9,662,675.97	12,542,649.12	16,267,624.33
Interset Paid on Loans		5,672,700.00	7,941,780.00	11,118,492.00	13,800,000.00	15,480,000.00
Administrative Expenditure (D)	**11,669,063.49**	**20,958,126.98**	**38,874,650.95**	**40,782,460.95**	**57,087,745.18**	**60,796,630.38**
Board Sitting Fee & Allownaces	1,700,000.00	2,100,000.00	2,310,000.00	2,541,000.00	2,795,100.00	3,074,610.00
Motor bike Running Cost	2,700,000.00	3,600,000.00	3,960,000.00	4,356,000.00	4,791,600.00	5,270,760.00
Motor Bike Repair Cost		720,000.00	792,000.00	871,200.00	958,320.00	1,054,152.00
Stationary	2,877,000.00	5,754,000.00	3,962,670.00	4,715,000.00	7,521,000.00	9,616,100.00
Service Fee Paid to TAA		-	-	-	12,138,400.23	12,138,400.23
Generator Running Cost			1,248,000.00	1,622,400.00	2,109,120.00	2,741,856.00
Generator Repair Cost			249,600.00	324,480.00	421,824.00	548,371.20
Depreciation	4,392,063.49	8,784,126.98	26,352,380.95	26,352,380.95	26,352,380.95	26,352,380.95
Total Expenditure (E=B+C+D)	**41,210,383.98**	54,051,157.76	106,317,474.26	121,821,628.93	167,864,194.30	194,307,674.71
Net Operating Income (F= A-E)	**(26,403,183.98)**	(36,450,042.98)	(34,057,853.89)	9,023,763.25	11,074,517.67	47,402,063.57
Grant Income (G)						
Grant Income - Operating Cost (G1)	24,090,667.00	37,787,667.00	66,972,270.00	74,688,080.00	-	-
Grant Income - Share Capital/ Loan (G2)		-	-	-	-	-
Total Income F+G1+G2	(2,312,516.98)	1,337,624.02	32,914,416.11	83,711,843.25	11,074,517.67	47,402,063.57

	Un Audited	Projected				
Balance Sheet	**Sep-12**	**2012**	**2013**	**2014**	**2015**	**2016**
Asset	**Actual**					
Cash and due from Banks + Net earnings and GI	6,794,601.00	10,208,332.10	25,665,694.15	17,553,400.38	13,926,088.17	13,583,344.49
Safe keeping	4,736,000.00	4,972,800.00	5,221,440.00	5,482,512.00	5,756,637.60	6,044,469.48
Net Fixed Asset	245,807,936.51	237,859,880.95	225,519,761.90	221,179,642.86	202,169,880.95	195,360,119.05
Gross Fixed Asset	250,200,000.00	250,200,000.00	250,200,000.00	260,200,000.00	260,200,000.00	272,400,000.00
Accumulated Depreciation	(4,392,063.49)	(12,340,119.05)	(24,680,238.10)	(39,020,357.14)	(58,030,119.05)	(77,039,880.95)
Net Loan Portfolio	52,400,205.00	58,415,461.98	163,317,067.09	312,426,523.16	405,545,654.94	525,986,520.09
Loan Portfolio	52,929,500.00	60,222,125.75	168,368,110.40	322,089,199.13	418,088,304.06	542,254,144.42
Loan Loss Reserve	(529,295.00)	(1,806,663.77)	(5,051,043.31)	(9,662,675.97)	(12,542,649.12)	(16,267,624.33)
Other Assets						
Total Assets	**309,738,742.51**	**311,456,475.03**	**419,723,963.14**	**556,642,078.39**	**627,398,261.66**	**740,974,453.11**
Liabilities						
Safe Keeping	4,736,000.00	4,972,800.00	5,221,440.00	5,482,512.00	5,756,637.60	6,044,469.48
Loan from AFF	9,986,068.00	9,986,068.00	66,181,500.00	92,654,100.00	115,000,000.00	129,000,000.00
Other Liabilities	4,154,191.49					
Total Liaiblities	**18,876,259.49**	**14,958,868.00**	**71,402,940.00**	**98,136,612.00**	**120,756,637.60**	**135,044,469.48**
Equity						
Share Capital	42,975,000.00	47,272,500.00	66,181,500.00	92,654,100.00	129,715,740.00	181,602,036.00
Share Capital-Fixed Asset Grant	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00	250,200,000.00
Retained Earnings (Current Year)	(26,403,183.98)	(36,450,042.98)	(34,057,853.89)	9,023,763.25	11,074,517.67	47,402,063.57
Retained Earnings (Previous Years)		(26,403,183.98)	(62,853,226.97)	(96,911,080.86)	(87,887,317.61)	(76,812,799.94)
Donated Equity (Current Year)	24,090,667.00	37,787,667.00	66,972,270.00	74,688,080.00	-	-
Donated Equity (Previous Year)		24,090,667.00	61,878,334.00	128,850,604.00	203,538,684.00	203,538,684.00
Total Equity	**290,862,483.02**	**296,497,607.03**	**348,321,023.14**	**458,505,466.39**	**506,641,624.06**	**605,929,983.63**
Equity + Liabilities	**309,738,742.51**	**311,456,475.03**	**419,723,963.14**	**556,642,078.39**	**627,398,261.66**	**740,974,453.11**
	-	-	-	-	-	-

45. The above projection is based on an FSA that opened in early 2012. It shows that the FSA will access the AFF almost immediately to progressively increase its loan portfolio quite sharply, with it rising by 180% in year 2 (2013), 92% in year 3, and thereafter the rate of growth slowly declines to 30%% in year 5 (2016). The funding resulting from the reimbursement of the operating costs under RFCIP2 also provides considerable liquidity, Le. 142 million, for financing the increase in the loan portfolio in 2013 and 2014. The loan loss reserve, at 3% of the gross loan portfolio, is set to reflect the possibility of relatively modest loan losses being incurred due to the high level of members' own capital at risk and increased training of staff. With the large majority of loans being less than Le. 1.5 million (USD 350), by year 3 (2014) the FSA will be extending more than 400 loans annually to IFAD demographic clients. By year 5, this will have increased to more than 1,400 6 month loans of USD 350 each, or even more if the loan amount is smaller.

46. The FSA also gains income leverage from the relative fixed nature of its operating costs, which in most cases are forecast to rise in line with inflation, excluding the payment of fees paid for services from the APEX. There will be incremental staff employed in year 2 (2013) to help manage the increase in the loan portfolio. Running costs on the generator also are projected to be quite high.

47. The ROA and ROE ratios are projected to improve steadily over time, increasing from 1.62% and 1.97% in 2014 (the first year of operational sustainability), to 6.4% and 7.8% in 2016. This provides the opportunity for the FSA to consider declaring dividends to shareholders from 2016 onwards. The narrowness in the spread between the respective ratios is due to the conservative leverage/gearing built into the model. This is essential to members retaining ownership of the FSA, and to be in accordance with prudent banking practices.

48. Sensitivity analysis indicates that the margin of error in the operational sustainability in year 2 is reasonable. If administrative expenses increase by 20% in that year, the FSA remains operationally sustainable. Concurrently, the loan loss provision could increase by 90% and the FSA still would be profitable. This margin steadily becomes more robust. By 2016, the administrative expenses, excluding fees paid to the APEX could increase 80% and operational sustainability still would be retained. Similarly, the loan loss provision could increase more than 150% before the FSA would be in a loss making position.

49. The above analysis indicates that an FSA can become quite profitable providing a reasonable range of services, while remaining under the ownership and control of its local members. The inclusion of additional services, such as acting as an agent for a CB would further broaden the range of services provided, and increase its operational sustainability.

Crop budget

50. With the objective of estimating the present and future financial return to farmers, a crop budget for rice has been developed, as it is estimated that 60 percent of the Agriculture Financing Facility will benefit small lowland rice farmers who on average require agricultural campaign loans in the amount of USD 350 for predominantly input and labour purposes.

51. The presentation of the rice crop budget is also grounded in the principle that rice is the single most important food crop in Sierra Leone today, with more than 350,000 farm households involved in its production. Table 8 below shows the present and future mission's estimates in terms of present and future physical yield/revenues and production costs.

Table 9: Rice financial budget

Sierra Leone
RFCIP2
Lowland Rice Crop Model

FINANCIAL BUDGET (In Leone Per ha) /a	Existing Technology	New Technology
	1 to 7	1 to 7
Revenue		
Lowland Rice	1 500 000.0	4 200 000.0
Loan	-	1 505 000.0
Sub-total Revenue	1 500 000.0	5 705 000.0
Input costs		
Rice seed	50 000.0	-
Improved Rice seed	-	90 000.0
Fertilizer (Urea)	-	180 000.0
Fertilizer (DAP)	-	330 000.0
Interest	-	270 900.0
Principal	-	1 505 000.0
Sub-total Input costs	50 000.0	2 375 900.0
Income (Before Labor Costs)	1 450 000.0	3 329 100.0
Labor costs		
Brushing	80 000.0	140 000.0
Ploughing/harrowing	150 000.0	240 000.0
Bunding/levelling	-	840 000.0
Nursery/Transplanting/planting	-	180 000.0
Weeding	50 000.0	60 000.0
Bird Scaring	50 000.0	60 000.0
Threshing & Winnowing	10 000.0	10 000.0
Harvesting	30 000.0	30 000.0
Transport	10 000.0	10 000.0
Sub-total Labor costs	380 000.0	1 570 000.0
Income (After Labor Costs)	1 070 000.0	1 759 100.0

Income Before Labor: IRR = None, NPV = 8,575,754.91
Income After Labor: IRR = None, NPV = 3,144,884.63
\a Improved crop husbandry

Table 10: Rice production model

Sierra Leone
RFCIP2
Lowland Rice Crop Model

YIELDS AND INPUTS (Per ha) /a	Unit	Existing Technology	New Technology
		1 to 7	1 to 7
Main Production			
Lowland Rice	kg	1 000	2 800
Loan	unit	-	1 505 000
Operating			

Inputs			
Rice seed	kg	50	-
Improved Rice seed	kg	-	60
Fertilizer (Urea)	kg	-	100
Fertilizer (DAP)	kg	-	150
Interest	kg	-	270 900
Principal	value	-	1 505 000
Labor			
Brushing	md	8	14
Ploughing/harrowing	md	15	24
Bunding/levelling	md	-	84
Nursery/Transplanting/planting	md	-	18
Weeding	md	5	6
Bird Scaring	md	5	6
Threshing & Winnowing	md	1	1
Harvesting	md	3	3
Transport	md	1	1

\a Improved crop husbandry

52. The financial prices of products and inputs were obtained during the mission field visits and in discussion with local staff. All prices are assumed to remain constant in real terms throughout the life of the Programme.

53. The physical inputs and productions established in the financial analysis provide the basis for an evaluation to determine whether the Programme will be acceptable in terms of quantifiable opportunity costs and benefits to the economy as a whole.

54. In the ‘without project’ situation, the small lowland rice farmer can expect to earn USD 249 per ha; the farm characteristics of this ‘without project’ situation is such that famers are using traditional cultural practices and are facing constraints in their access to inputs, technology and credit, especially for labour needs.

55. In the ‘with project’ situation, the farmer through access to the agricultural campaign loan, is able to use improved technology (including nursery and planting) and hire the associated and necessary labour needs. Through these measures, productivity can be increased from 1 MT/ha to 2.8 MT/ha and farm incomes will increase to USD 409 on a hectare basis. This demonstrates an incremental increase in incomes by USD 160 (after repayment on the loan), per farmer, per hectare.

Economic analysis

56. Methodology and assumptions. The economic analysis is primarily based on an estimation of benefits from (a) return from the loans disbursed through the Agriculture Finance Facility; and (b) return from the loans disbursed through the recapitalisation of the Community Banks.

57. For the purpose of the analysis, the following assumptions are made:

    (a) The analysis is based on a 20-year period, during which the RFCIP2 programme will generate benefits, including the 9-year programme implementation period.

    (b) The investment cost stream has been adjusted to reflect the actual disbursement of the AFF for the first three years.

    (c) No recurrent costs have been foreseen after project completion as the institutions set-up will all breakeven

(d) The failure rate for the loans is set at 15% and the average profit rate of successful loans at 55%.

58. **Economic Programme Costs**: The financial programme costs have been converted to economic costs, which exclude taxes and duties and price contingencies, using the COSTAB software. The fixed asset contribution to APEX and the capitalisation of existing CBs and FSAs has been eliminated for the purpose of the analysis as these are not actual costs incurred by the project but transfers.

59. The impact of assumed changes in relative prices over time is not included in the baseline analysis.

60. **Economic viability and sensitivity analysis**. The economic internal rate of return (ERR) of the programme is estimated at 11.3 percent with a net present value (NPV) US$ 2.1 million). These results indicate that, on the basis of an opportunity cost of capital of 10 percent, the programme will generate a satisfactory ERR and is therefore justified on economic grounds. The results of the sensitivity analysis are summarized in Table 10. The RFCIP2's economic viability is robust to adverse changes in programme costs, and the programme still remains viable with increases in capital and recurrent costs or in delay of benefits.

Table 11: Economic Rate of Return (ERR) and Sensitivity Analysis

Base Case	Change of Benefits					Change of Costs		Delay of Benefits	
	-30%	-20%	-10%	+10%	+20%	+10%	+20%	1 year	2 years
11.3%	6.0%	7.9%	9.6%	12.9%	14.5%	9.8%	8.5%	9.5%	8.1%

61. **Employment generation**. At the financial institutions level, through project interventions, employment will be generated by the new FSAs and CBs to be established. In addition, the project support to the TAA and financial institutions will allow them to become operationally and financially viable, thus enabling them to become sustainable over the long-term and guaranteeing staff positions. It is also expected that as these institutions grow, they will require higher staffing numbers, thus generating further employment. Employment will also be generated at the farm level; in particular, through the agricultural campaign loans, farmers will be able to hire the necessary labour required which in the 'without project' situation, they were unable to do for lack of funds. Finally, employment is also generated through the civil works (construction of housing, CBs, FSAs, etc.).

62. **Government revenues**. In the short term, the fiscal impact of the programme will be neutral, given that the government's contribution to programme costs primarily comprises exemption of taxes and duties and salaries of existing staff. However, in the medium to long term, the potential positive fiscal impact of the programme will be substantial, mainly due to: (a) increased output, income, and employment, resulting in increased tax revenues, and (b) multiplier effects due to increased economic activities in rural areas, resulting in increased demand for goods and services, which is expected to generate additional income and employment effects. Furthermore, substantial foreign exchange earnings/savings can be expected, resulting from an increase in exports and/or a reduction in imports.

63. The project will generate incremental tax revenues which is attributable to: (i) increased volume of taxable production; (ii) payment of 15% VAT on the farm inputs which will be purchased by farmers who have accessed the agricultural campaign loans; (iii) income tax from employment created by the 11 new FSAs and 5 CBs; and (iv) income tax from the sustained employment of all 87 financial institutions and the APEX staff made possible through the project interventions that support the financial institutions to achieve financial and operational viability.

64. **Changes in loan portfolios towards agricultural productive loans**. Through the AFF, the portfolio composition of the participating financial institutions (CBs and FSAs) will undergo a

significant shift towards more productive loans – particularly via loans directed at the productive agricultural sector. At present there is only one CB with a share of 21 percent of its loans outstanding directed at the agricultural sector (see table 11 below); in general however, the average loan share to the agricultural sector is approximately 7 percent. As per the table below, by access to the AFF, the CB can be expected to increase the share of their loan portfolio for agricultural productive loans to at least 33 percent.

Table 12: Breakdown of representative CB loan portfolio

	2012	2013	2014	2015	2016	2017	2018	2019	2020
RFCIP+GAFSP RFF- Loan Outs.	211 250 000.33	238 888 888.89	238 888 888.89	238 888 888.89	238 888 888.89	238 888 888.89	238 888 888.89	238 888 888.89	238 888 888.89
Loan Client	264	299	299	299	299	299	299	299	299
AFF - Loan Outs.			627 083 333.33	581 097 222.22	714 456 944.44	1 107 002 750.00	1 806 669 725.00	1 891 525 387.50	2 076 600 881.25
Loan Client			480	747	1 136	1 736	2 667	3 851	5 507
CBs Own Fund- Loan Outs.	711 633 315.16	800 000 000.00	930 000 000.00	1 033 000 000.00	1 232 673 000.00	1 784 000 000.00	2 200 004 000.00	2 876 987 000.00	3 890 067 000.00
Loan Client	837	941	1 033	1 033	1 121	1 372	1 517	1 555	2 103

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Loan Portfolio	922 883 315.49	1 038 888 888.89	1 795 972 222.22	1 852 986 111.11	2 186 018 833.33	3 129 891 638.89	4 245 562 613.89	5 007 401 276.39	6 205 556 770.14
Loan Client	1 101	1 240	1 812	2 078	2 556	3 407	4 483	5 705	7 909

65. Improved efficiency and stability of the financial sector. In general, the project interventions will go a long way towards improving the efficiency and stability of the financial sector, by: (i) supporting the financial viability of the 87 financial institutions; and (ii) by support to the Bank of Sierra Leone (via policy review and also through the TAA) to supervise and monitor these institutions.

Concluding remarks

66. On the basis of the assumptions described above, the programme can be justified on economic grounds. It should be kept in mind that not all potential economic benefits (have been included in the analysis. Furthermore, the likely multiplier effects described above have not been quantified. Therefore, it is safe to assume that the estimated economic benefits are on the low side of the potential economic returns that can be expected when the RFCIP2 is implemented.

Appendix 11: Draft programme implementation manual

1. It is expected that programme activities will be integrated within the National Programme Coordination Unit (NPCU). In accordance with the provisions of the financing agreement, the operating modalities and procedures applicable to the programme will be set out in the Project Implementation Manual (PIM). The PIM will include 3 volumes:

   (i) Volume 1: the Operations Manual which describes in detail the implementation arrangements for each project component, the terms of reference of each NPCU staff, the target groups selection criteria and targeting mechanisms. The Operations Manual also includes specific guidelines/documents for RFCIP2, i.e. the criteria for CB/FSA site selection and eligibility for capital grants and on-loans, model agreements for grants and CB/FSA financing, the eligibility criteria and operation modalities, and triggers for passage from launching to institutionalization phase for CBs, FSAs, Apex institutions and other key activities.

   (ii) Volume 2: the Financial and Administrative Procedures Manual.

   (iii) Volume 3: the Monitoring & Evaluation Manual, which describes the project cycle and logical framework, the baseline situation and monitoring indicators, the M&E system and guidelines.

2. The PIM is approved by the Programme Steering Committee and by IFAD.

3. The detailed outline of the PIM is provided below.

Detailed outline of the RFCIP2 PIM

Table of contents

IV. Procurement Procedures

1. IFAD basic procurement principles
2. National rules and regulations
3. Main methods of procurement for goods and works
4. Main methods of selection of consultants & services providers
5. Specific procurement arrangements
   - 5.1. Declaration of bid security
   - 5.2. Bonds for insurances companies

V. Monitoring & Evaluation

1. Planning of M&E
2. AWPB Preparation, including annual targets (RIMS+)
3. Follow-up of outputs
4. Evaluation of results
5. Evaluation of Impact
6. Elaboration of progress reports

Appendix 12: Compliance with IFAD policies

1. **Overall compliance with IFAD Policies.** The design of RFCIP II is aligned to all relevant IFAD strategies and policies, including:

   (a) Strategic Framework 2011-15;
   (b) Targeting Policy – Reaching the Poor (2010);
   (c) Gender Equality and Women's Empowerment;
   (d) Rural Finance Policy;
   (e) Private-Sector Development and Partnership Strategy;
   (f) Rural Enterprise Policy;
   (g) Policy on Supervision and Implementation Support
   (h) Policy on Sector-wide Approaches (SWAp) for Agriculture and Rural Development
   (i) Climate Change Strategy (2010);
   (j) Environment and Natural Resource Management Policy (2011); and
   (k) Environmental and Social Assessment Procedures.

2. **Targeting.** In order to ensure project benefits reach IFADs target group, target groups have been defined, a targeting strategy developed and means of operationalizing that strategy integrated into project design and implementation modalities. The latter includes geographic targeting to poor districts; self-targeting as related to economic opportunities, and empowerment and capacity building. RFCIP2 will re-orient some of the approaches and measures adopted under RFCIP1 to ensure a stronger poverty focus and increased outreach to smallholder farmers. This will be done by developing loan products that best meet the conditions and requirements of poor people and farmers, such as lower interest rates and longer repayment periods for agricultural loans.

Table 1: Targeting Checklist Questions

	ISSUES
1) Does the **main target group** - those expected to benefit most- correspond to IFAD's target group as defined by the Targeting Policy (the extremely poor and food insecure)?	The Project will build and support FSAs and CBs as rural financial institutions that could provide loans and financial services tailored to the needs and condition of rural communities and farmers that are generally excluded from financial services (including credit) from commercial banks, because they do not have assets and therefore do not provide sufficient guarantee as borrowers.
2) Have **target sub-groups** been identified and described according to their different socio-economic characteristics, assets and livelihoods - with due attention to gender differences?	A description is provided for each target group, namely smallholder farmers, small/medium entrepreneurs, young people, all including women.
3) Is evidence provided of **interest in and likely uptake of the proposed activities** by the identified target sub-groups?	RFCIP 2 builds on the experience acquired under the on-going project and aims to re-orient/improve the financial services offered to poor rural communities and smallholder farmers. There is high demand on the part of rural communities for financial services in rural areas, especially for agricultural loans. During last implementation support mission and design mission in particular, the views of the target group have been specifically listened to and the design developed accordingly.
4) Does the design document describe a feasible and operational **targeting strategy** in line with the Targeting Policy? *The targeting strategy will involve either all or some of the following measures and methods*	Yes, a comprehensive targeting strategy, complementary to the gender strategy and address social inclusion concerns, has been defined.
4.1) Geographic targeting – based on poverty data or proxy indicators to identify, for area-based projects or programmes, geographic areas (and within these, communities) with high concentrations of poor people	The Project is a scaling-up project replicating the FSA/CB model in all country districts, based on success and lessons from RFCIP 1.

4.2) Enabling measures – These include measures to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building, and appropriate project /programme management arrangements (references in ToR, PCU composition); language in describing staff positions (s/he; masculine/feminine).	The M&E/Gender and Targeting staff will continue to work at the NPCU and will be responsible for gender mainstreaming and poverty targeting across project components and activities, as currently done under the on-going projects. Gender and targeting aspects will also be mainstreamed into terms of reference of staff at all levels and incorporated in the Staff Performance Evaluation System (PES).
4.3) Empowerment and capacity-building measures including information and communication, focused capacity- and confidence-building measures, organisational support, in order to empower and encourage the more active participation and inclusion in planning and decision making of people who traditionally have less voice and power.	The project will use the GALS approach as the main instrument to mentoring the household as a whole and empowering its members, including women.
4.4) Direct targeting when services or resources are to be channelled to specific individuals or households. Such measures may include eligibility criteria, to be developed and applied with community participation; quotas (e.g for women), earmarked funds	In order to strengthen direct targeting, targets for women and youth have been established to ensure they also participate as shareholders and borrowers. The Project will also target women for training and will develop financial products tailored to the specific needs of women and the youth.
4.5)Attention to procedural measures that could militate against participation by the intended target groups (such as, excessive beneficiary contributions; cumbersome legal requirements, etc**)**	Some of these barriers have been identified as areas to be improved under RFCIP 2 (such as too high shares, too high interest rates, and too early repayment rates), which do not allow farmers or poor people to access loan products.
5) Monitoring targeting performance. Does the design document specify that targeting performance will be monitored using participatory M&E, and also be assessed at Mid-term review?	The M&E system will ensure gender, youth and socio-economic disaggregation of data to ensure that the target population is reached
OVERALL SCORE	

3. **Gender.** RFCIP2 is fully in line with IFAD's policies on Gender Equality and Women's Empowerment. The project will ensure that women and youth equally benefit from project interventions. By setting a target of 50 percent women to become shareholders/clients of FSAs and CBs by prioritizing qualified women to be recruited for job opportunities in these institutions, RFCIP2 will contribute to achieve SO1 (economic empowerment) and SO2 (decision-making and representation) of the new Gender Policy. The adoption of GALS approach will further ensure these objectives to be achieved by targeting the household as a whole and preventing the risk of conflict that could raise as long as the women gain economic benefits from accessing financial services and consequently become stronger within the household and community in decision-making processes. GALS will also facilitate more equal distribution of workload between women and men.

Table 2: Gender Checklist Questions

	Yes	No	Issues
1. Project design document contains – and project implementation is based on - gender-disaggregated poverty data and analysis	x		The proposed programme draws on experience from the RFCIP and the gender-disaggregated data collected during its implementation (see appendices 2 and 4).
2. The project articulates – or the project implement – actions with aim to:			
Expand women's economic empowerment through access to and control over fundamental assets.	x		Capacity building to enhance entrepreneurship skills is foreseen; in agriculture, women's access, control and ownership over land and other productive resources will be part of the policy dialogue.
Strengthen women's decision-making role in community affairs and representation in local institutions.	x		This will be achieved through women's participation as Board members of the RFIs and also through facilitating their active participation in GA meetings that impact on their

			communities.
Improve women's knowledge and well-being and ease their workloads by facilitating their access to basic rural services and infrastructure.	x		The programme has an aim to facilitate women's access to financial services.
3. The project identifies operational measures to ensure gender- equitable participation in, and benefit from, project activities, including	x		Ensuring gender balance in bank staff and board; women are also encouraged to sit on the Board and/or participate in GA meetings of these rural financial institutions; provision of literacy and numeracy training for women's saving/borrowing groups; specialist training for Board members; ensuring outreach of poor and women in communication/sensitization campaigns (capacity building and sensitization of women's groups so that they are aware of the existence of FSAs/ CBs and products offered); attractive financial products will be developed to increase outreach to women (and youth).
Ensuring and supporting women's active participation in decision-making.	x		
Ensuring management arrangements reflect attention to gender equality and women's empowerment concerns.	x		
Ensuring direct project outreach to women	x		
4. The project's logical framework and M&E system specify gender-disaggregated performance and impact data	x		The logframe and M&E system places emphasis on gender and youth-disaggregated data.
5. The project provides opportunities for policy dialogue on issues related to gender equality and empowerment of women	x		The project will draw from the Sierra Leone National Gender Strategy Plan 2010-2013 and feedback into policy dialogue on women's empowerment in agriculture in particular, and towards engendering rural finance and micro-finance policies.

4. **Compliance with IFAD's Rural Finance Policy**. The proposed RFCIP2 programme proposes to make available considerable support for the development of the rural finance sector in Sierra Leone. This assistance takes the form of establishing an APEX bank, the provision of technical assistance and training, capitalisation of the Community Banks (CBs) and the establishment of a line of credit.

5. The technical assistance and training will be provided to the participating Financial Service Associations (FSAs), Community Banks (CBs) and the APEX itself. Moreover, assistance will be rendered to the Bank of Sierra Leone (BOSL) to create a policy dialogue and to strengthen their regulation and oversight role of the rural financial sector.

6. The provision of funds to capitalise the CBs and the line of credit will be financed by external investors on commercial terms by investment in the APEX. After an initial start-up period, they will be paid a "real" dividend rate of the current inflation rate in Sierra Leone (currently projected at 10%) plus a risk premium of 2% on their investment. In turn, the APEX will capitalise the CBs so as to meet the BOSL minimum capital requirements and will receive dividends starting in the first year at a dividend rate tied to inflation plus 2%. Thus in the case of the capitalisation of the CBs, IFAD is not providing any funding for this and the dividends being paid are at "real" levels without any subsidies. The CBs will on-lend these funds to their client base on their normal, unsubsidised terms and conditions.

7. Similarly, with the proposed line of credit. The outside investors will receive a dividend on the capital they invest in the APEX, a portion of which will be used to fund the line of credit that will charge the borrowing CBs/FSAs a "real" interest rate tied to inflation plus a risk premium of 2%. In turn the borrowing CBs and FSAs will charge their end clients their normal interest rates and commissions. The APEX, which will manage the line of credit, profits by investing unused surplus cash under the line of credit in short term investment instruments.

8. Thus the line of credit and the capitalisation of the CBs will not use on funding provided by IFAD. This, combined with the use of non-subsidised interest rates and the implementation of microfinance and banking best practices regarding credit analysis, loan disbursement and loan recovery, complies with IFAD's rural finance policy.

Appendix 12.1: Environmental and Social Review Note (ESRN)

Brief description of the RFCIP2 and linkages with on-going projects

1. In line with the current 2010-2015 COSOP, a second phase Rural Finance and Community Improvement Programme (RFCIP2) has been jointly conceived by IFAD and the Government of Sierra Leone to build on the achievements and success of the RFCIP, thereby consolidating the rural financial system in Sierra Leone and **establishing stronger linkages with the agricultural sector**. This follows the recommendation arising from the RFCIP mid-term review, and the request by the Government to consolidate the efforts in increasing access to rural finance and agricultural financial products. 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.

2. **Agriculture potential**. The agricultural sector is the priority sector for poverty alleviation in Sierra Leone today, evidenced by the allocation of 10% of the national budget to the Ministry of Agriculture, Forestry and Food Security (MAFFS), in line with the Maputo Declaration. The sector has also been growing in strength and prospects for further growth looks promising. Between 2008 and 2009, the sector grew by 4 percent. Furthermore, all the sub-sectors experienced output growth, especially crop production with a 5.2 percent growth rate, having benefitted from such policy interventions like Government's commercialization policy (farm mechanization, processing and marketing).

3. To capture the benefits of this momentum, constraints faced by farmers today still need to be addressed. Among the constraints faced by farmers, access to inputs is considered as a major hurdle preventing improved productivity and production increases. Value-addition is low in the absence of modern processing equipment, and inadequate rural infrastructure (roads) confines farmers' access to markets. More broadly, farmers also suffer from limited rural services, including access to financial services (it is estimated that currently, only 5 percent of farmers have access to financial services) which have huge potential to address some of the common constraints faced.

4. **Institutional context**. The rural and agricultural sector effort is guided by multiple strategic directives, led by the Ministry of Agriculture, Forestry and Food Security (MAFFS); this has resulted in the National Sustainable Agriculture Development Plan 2010-2030 (NSADP) and the Smallholder Commercialisation Programme (SCP) to operationalize the plan. Within this overarching framework, the provision of better access to financial services specifically tailored to rural farming groups is a prominent and critical component, to complement the policy orientations that seek to foster agricultural productivity and promote value chain development and commercial agriculture through the private sector. As such, the rural finance agenda has taken on increasing prominence, and is championed by not only MAFFS, but the Ministry of Finance and Economic Development (MOFED) and the Bank of Sierra Leone (BOSL). The expansion of the rural financial network through the rapid growth and establishment of Financial Services Associations (FSAs) and Community Banks (CBs) is evidence of this national commitment.

5. **Geographic scope**. The RFCIP2 will be a nation-wide programme, covering all districts in Sierra Leone (13 districts, including rural areas of the Western District, outside Freetown). Chiefdoms and wards will be prioritized based on the following criteria: (i) the potential for poverty reduction and employment creation; (ii) areas with economic potential; and (iii) coverage under the on-going IFAD-supported operations, namely RFCIP, RCPRP and SCP-GAFSP, to build on what has already been achieved and to maximise impact, e.g. in targeting farmers and small/micro-entrepreneurs for productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

6. **Targeting strategy**. As part of the core targeting strategy, ensuring pro-poor and farmer-friendly financial products will be emphasized. The Project will improve the conditions and products offered by FSAs and CBs to ensure a stronger 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" due to lack of funds. Assuming that each FSA and CB will be able to improve their community outreach, the RFCIP2 will extend more than 170,000 loans during its 9 year span (almost 30% of the total poor rural households). The RFCIP2 builds on the pro-poor approach (which incorporates GALS) of the first phase RFCIP, and complements the effort of such projects like the RCPRP which works with the poorest strata of the rural population through provision of financial products to this increasingly bankable population. Special effort has also been made to tailor financial products to meet their needs; based on surveys and field observation, **three agricultural financial products will be made accessible: (i) agricultural campaign loans; (ii) agricultural rehabilitation loans; and (iii) equipment and processing loans**.

7. **Programme strategy and vision**. The main focus of the programme seeks to strengthen the capacity of the finance service providers in rural areas, in order to increase their outreach and provide demand-driven services to rural communities. A key feature of the programme approach is that it is business-oriented; this begins at the grassroots financial institutions level where FSAs and CBs are established on the basis of sound business plans and managed on business principles. This approach will also be evident in the agricultural financing to be rolled out – i.e. promoting farming as a business and subsequently as an eligibility criteria to access loan financing. The programme seeks to achieve this by adopting a mutually reinforcing and holistic approach, consolidating the support to the financial services sector as the primary programme component. This will be complemented by technical assistance services (through the APEX), the capitalisation of the CBs and the establishment of the AFF, with specific attention to agricultural financing.

8. Aligned with GOSL priority objectives as articulated in the PRSP and NSADP, the overall **programme goal** of the proposed second phase 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, enabling development of the agricultural sector. In order to fill in the void in the districts not covered by RFCIP and also to consolidate the gains made so far in the RFCIP1 districts, the proposed programme will up-scale the on-going RFCIP2 to a national level and will forge linkages with other IFAD and donor supported projects. Ensuring that the rural financial system can continue to meet the needs of the rural communities it serves, necessitates a concerted effort to promote their profitability and long-term sustainability.

9. As per the proposed programme, the RFCIP2 financing will support **two complementary components**:

   (a) **Component 1**: Consolidation of the rural finance system of FSAs, CBs and the TAA with two sub-components;

      Sub-Component 1.1: Sustainable and autonomous rural financial institutions

      Sub-Component 1.2: Promotion of agricultural financial products

   (b) **Component 2:** Project management and coordination.

10. *Component 1: Strengthen and expand the rural finance system*. The overall outcome of this component is that financial products are developed to foster agricultural production and commercialisation in Sierra Leone, and that almost 30% of the rural poor have access to rural finance services; in so doing, farmers will be in a position to improve their agricultural production potential as they have the financial resources to buy inputs that will lead to increased production output. To achieve this, the component is comprised of two sub-components: (i) sustainable and autonomous rural financial institutions; and (ii) promotion of agricultural financial products through the AFF and CB capitalisation. This component therefore

focuses on consolidating and ensuring the sustainability and impact of the eighty-three (83) grassroots financial institutions and four (4) regional community banks that are expected to be operational by end 2014. Also, it will include strengthening the technical support to these institutions in the form of the existing TAA/APEX that has demonstrated capacity to provide support services, including supervisory functions delegated by the BOSL . The dual approach of promoting sustainability of both FSAs and CBs, combined with strengthening of the APEX to provide the necessary support services, establishes the foundation for growth in the rural financial system. Through these measures, the following functions are assured: (i) provision of technical support to ensure sound management and good performance of these institutions; (ii) effective compliance with financial regulations (APEX to provide technical assistance and some oversight functions to CBs/ FSAs as agreed with the BOSL); and (iii) availability of required liquidity to respond to rural population needs in terms of agricultural and rural loan financing, especially term financing, through the AFF and the capitalisation of the CBs.

11. The comprehensive approach in consolidating the rural finance system places emphasis on achieving sustainability and having a clear exit strategy, reflected in CB and FSA business plans. Operational self-sufficiency should be reached at the minimum five years before the end of the project, thus signalling completion of IFAD financing to rural finance in Sierra Leone.

12. *Component 2: Project Management and Coordination*. This component will ensure that the programme is efficiently and effectively managed to achieve expected results. Gender, youth, environmental, knowledge management and communication considerations will be integrated in all aspects of programme management, and concerns activities of the NPCU. The performance indicators of this component will include quality and timely execution of annual work plan and budgets, timely submission of progress reports and annual audit reports, and operational M&E able to document key indicators and actual levels of disbursements in line with planning. In addition, this component also reinforces policy dialogue and exchange, through institutional support to the Bank of Sierra Leone in terms of capacity building and policy review.

13. **Whilst the focus of the project is on the strengthening and expanding the rural finance system, it is central to understand that in so doing, the project is effectively complementing the IFAD-supported on-going portfolio of projects and programmes in Sierra Leone today, notably the RCPRP plus and the SCP-GAFSP**.

14. As a standalone rural finance programme, the project does not have any direct impact on the environment. However, by virtue of the promotion of the three types of agricultural loan products, and by facilitating the access of the project’s target group, as well as those of the RCPRP plus and SCP-GAFSP (predominantly farmers) to financing for agricultural production, the project will have an indirect impact on the environment – i.e. activities promoted by the on-going projects have some level of impact on the environment.

15. **SCP-GAFSP**. Of particular relevance is the complementary nature of the RFCIP2 to the interventions envisaged under the four components of the nation-wide SCP-GAFSP:

(a) Smallholder Commercialization: production intensification, diversification, value addition and marketing. The objective of this component is to promote commercialisation of smallholder agriculture through increasing productivity, value addition, and marketing with emphasis on commodity chain development and institutional strengthening of farmer-based organisations (FBO);

(b) Small scale irrigation development. The aim of this component is to develop appropriate small scale irrigation infrastructure in order to boost rice production, a major staple in the country. Results expected from small scale irrigation development would substantially contribute to increased food security, the generation of marketable surplus for lowland smallholders and their insertion in national agricultural trade, as well as creation of wealth and employment for youth;

(c) Rural finance. The aim is to enhance access to financial services for smallholders, rural agribusiness and rural poor;

(d) Smallholder Commercialization Programme (SCP) Planning, Coordination, Monitoring and Evaluation.

16. **As a thorough environmental and social analysis/ assessment has taken place for the recently conceived SCP-GAFSP, the RFCIP2 aligns itself to the findings of the SCP-GAFSP ESRN**.

Major site characteristics

17. Sierra Leone, with a total land area of about 71,740km2, is divided into five main geographical regions: the coastal zone, interior lowland plains, interior plateau, the mountains and Freetown Peninsula. Of the total area, some 60,650km2, are classified as upland and 11,650km2, are low lands. The lowlands are differentiated into four distinct agro-ecological zones:

(i) Inland Valley Swamps (IVS): fairly flat, poorly drained depressions between adjacent uplands;

(ii) Mangrove Swamps: land adjacent to the coast or along estuarine rivers subject to inundation by tidal brackish water;

(iii) Bolilands: low-lying inland depressions subject to flooding during the wet season;

(iv) Flood plains: located around major rivers, flooded periodically during the wet season.

18. Out of the total land area, 53,620km2, (5.36m.ha) has been estimated as suitable for crop production. Non-arable land which includes hills, rocky land, roads, rivers and creeks account for the rest of the land resources of the country.

19. The soils in Sierra Leone have been grouped into 12 soil associations by the Land and Water Development Division. Most of them are ferralitic in nature and excessively leached as a result of the humid tropical conditions. Organic matter content is generally low.

20. Sierra Leone has a tropical climate with two distinct seasons: the Dry Season (December to April), dominated by winds from the northeast, and the rainy season (May to November). Both seasons may have some variations in the commencement and duration. The temperature is characterized by high temperatures with an average monthly temperature of 26-28 degree from June to October with a maximum temperature of 32-36 degree in March.

21. Report of studies relating to climate change and National Adaptation Programme of Action carried out in recent times have revealed that rainfall and temperature patterns of the country have been changing. The harmattan period in recent times has been warmer than usual. It was also observed that the pre-monsoon period which runs from April to June is now associated with stronger winds and more frequent rain/storms causing greater damage to lives and property. Calmer and dryer weather now appears to be associated with the September/November period which was usually characterized by frequent thunder and lightening and short but heavy rainfall.

22. The wet or monsoon season, which runs from July to September with a country average rainfall of about 2746 millimetres, has recently had periods of delays in the rains and associated water shortages particularly in Freetown. Heavy rainfall accompanying such dry spells often results in extensive flooding throughout the country. The effects of these unusual temperature and rainfall patterns on agriculture, water supply and sanitation are evident in various parts of Sierra Leone. Based on global model simulations for a wide range of scenarios, the average temperature is projected to increase by the year 2100 by about 7 to 9 percent above the average annual temperature for the period 1961 – 1990 (which is about 26.7°C). With regards to rainfall, analysis carried out on local rainfall data and inter-annual variability projections linked more firmly to drier conditions in the near future.

23. The country has abundant water resources mainly attributable to rainfall (2000-4000mm per annum) and nine major river systems. The level of utilisation of this high water potential is however still very low.

24. The **production of both food and cash crops in Sierra Leone is almost exclusively by small-scale farmers**. Subsistence bush–fallow cultivation is the predominant type of farming, accounting for about 60 percent of agricultural output and employing two thirds of the farming population. Smallholdings range from 0.5 to 2.0 ha of cultivated land under food crops. Up to fifteen different crops are traditionally grown in mixed stands in the uplands, with rain-fed upland rice dominating. Agricultural production was adversely affected by unfavourable macro-economic policies during the eighties and by civil war in the nineties. It is estimated that rice production declined by 40 percent during the decade of the civil war and the production of other food crops stagnated. Over 90 percent of the cattle were either killed or transferred to neighbouring countries. Fisheries production was reduced to 50 percent of pre-war levels. The result has been the spread of poverty and unemployment, malnutrition, increased dependency on food imports, and expanded foreign indebtedness. Tree crops supply the bulk of Sierra Leone's agricultural exports and domestic palm oil consumption. The main crops are coffee, cocoa, oil palm, and kola nuts. Present yields are low for lack of maintenance and renewal. Fuel wood production is the most important forestry activity and provides a complementary income for most farmers. Logging is of little economic significance, as it is not properly monitored, but has negative impact on the remaining forest reserves.

25. **Land tenure** in Sierra Leone is characterised by a dual ownership structure. Land in the Western Area, which is the area originally settled by the Creole, the liberated slaves on their arrival in the country, is held under the English concept of freehold interests. It is believed that the land was acquired through negotiation with the natives by the English and handed over to the settlers. This area includes the capital city, Freetown. Land in the rest of the country (i.e. the Provinces) is held in communal ownership under customary tenure and is controlled by traditional rulers who administer it on behalf of their communities in accordance with customary principles and usage. The chiefdom Council, headed by the Paramount Chief, is regarded as the custodian of the land on behalf of the entire chiefdom but decisions regarding land are taken in consultation with heads of the various land owning families. Land is considered a heritage, to be preserved and handed down to future generations, it therefore cannot be "sold", only transferred, and individual members of the landowning families have an inherent right to the occupation and use of any part of the family land. 285, 000ha (4% of total lands) are held by Government in the form of forest reserves.

26. The population of Sierra Leone is estimated at 6 million, growing at a rate of about 2,6 percent per year. The population density of about 58 persons/ km2 is relatively high as compared to other countries in Sub Saharan Africa. Population is concentrated (up to 80 persons/ km2) in some particular regions of the country, the diamond area or those with large scale rice cultivation: the Freetown peninsula, the Bo, Kono and Kenema districts. A large section of the population is unemployed, especially among the youth. An estimated 68 percent live close to forest or forest re-growth area on which they depend for their livelihood.

27. Presently HIV/AIDS incidents in Sierra Leone are comparatively lower than for other countries in the sub-Saharan Africa (prevalence stable at 1,5 percent). HIV prevalence is 2,5 times higher in urban compared to rural areas and higher among women compared to men. Most at risk population result to be gold and diamond miners, military and police, mobile and border population, and sex workers.

Issues in Natural Resources Management

28. The country is confronted with challenges of environmental degradation as a result of demographic, economic and social demands. Rapid population increases, migration and poverty due to poor economic performance have increased demands on natural resources and

the environment, resulting in its poor and uncontrolled use and evidences by rapid deforestation and land degradation.

29. **Land degradation.** The “slash and burn” farming is the predominant system. All the major food crops are cropped through this system and up to fifteen different crops are traditionally grown in mixed stands in one season, with rainfed upland rice dominating. Upland cultivation operation includes brushing, clearing, staking and burning, sowing, hoeing-ploughing, weeding, bird scaring, rodent fencing, harvesting and storage. The overall labour requirements for upland cropping operations amount in average to 185 man days per hectare for an entire cycle. The fallow periods are progressively declining, mainly due to population pressure on land.

30. It is widely recognised that the highly degraded nature of the forests which cover most of the country is a result of the traditional practice of burning for land clearing and shifting cultivation. In those areas, often inappropriate agricultural practices, such as use of marginal lands, are employed leading to: (i) deterioration of watershed; (ii) high run off associated with increased erosion, leading to loss of fertile soils and sedimentation and siltation downstream; (iii) variability in climate and rainfall patterns; and (iv) degradation of water quality.

31. The Ministry of Agriculture, Forestry and Food Security (MAFFS) is working to encourage farmers both to shift towards more stable perennial and tree crops, including more legumes to improve soil fertility and the quality of run-off into valleys, and to move cultivation into the swamps, allowing tree crops growing to resume in the uplands. However, accessibility to IVS is still insufficient, and, in addition, there is some resistance from farmers to moving into lowlands because of health issues such as leaches, cold and rain conditions that increase the risk of catching pneumonia, and other water-related diseases such as bilharzias and malaria.

32. **Deforestation**. Sierra Leone has imposed a ban on transport and export of timber since January 2008. Uncontrolled logging for fuelwood and charcoal production for domestic household energy consumption, construction material and local industry (i.e. fish processing and salt production in mangrove areas) is the main cause of deforestation in Sierra Leone. The majority of the population uses firewood and charcoal for cooking (over 80 percent of energy used is derived from biomass) and bush poles for construction. The deforestation estimated at 3,000 hectares per annum. About 4 millions cubic meters of wood biomass is extracted annually to meet domestic energy needs. Electricity production is considerably below the levels required to meet requirements for socio-economic development of the country and the use of solar power is extremely low in the country.

33. **Other environmental concerns** include waste management (a major issue in urban areas, especially in Freetown) and mining. Both large and artisanal mining operations have resulted in extensive land devastation, with removal of the topsoil, water and air quality changes and siltation in river systems. Mining activities are much reduced and regulated compared to the past, and there is an ongoing effort to reconvert mining land to agriculture. This happens in particular in Kono district, where the environmental damage caused by mining was mentioned as a major concern by District Council representatives and many sensitisation efforts are currently made in order to promote Kono as agricultural district. However, it is still reported that some illegal mining is conducted in areas where IVS are rehabilitated, with negative impacts on soil and water management. Use of fertilisers and pesticides is still very limited in Sierra Leone, however, an increase is foreseen within the SCP-GAFSP framework and other on-going projects, that thus may generate concerns for human health and environment.

34. The root causes of bad management of natural resources include: insufficient knowledge of sustainable land use practices and effects of deforestation; lack of incentives for sustainable land use practices; weak agricultural extension services; weak policies, laws and regulation for environmental protection (e.g. Environmental Impact Assessment); insufficient enforcement of existing regulations, weak land governance, etc.

35. Consultations with local stakeholders (women's groups, farmers' groups, Farmers' Organisations, representatives of MAFFS), showed that level of environmental awareness is higher in the areas adjacent to protected forests and where environment-related projects have intervened. Young farmers' representatives reported that in the young generations concerns related to the unsustainable use of resources exist. Role of paramount chiefs is key in providing directions and guidance on use of resources and in addressing conflictive issues (i.e. livestock destroying farmers' fields; conflict over forest between farmers and beekeepers, etc).

36. **Climate change**. The impacts of climate change are felt by local stakeholders mainly in terms of unusual weather patterns such as changed rainfall patterns with rain in the dry season and dry periods in the rainy season, and also more intense rainfall resulting in severe floods and landslides. This affects cropping patterns (need for adaptive research on different varieties) and water availability (need for more training in water uses and management).

Potential social and environmental impacts and risks

37. **As the RFCIP2 is a nation-wide programme with a special emphasis on facilitating farmers' access to agricultural financial services and products, the related potential social and environmental impact and risks, are effectively those arising from the ongoing IFAD portfolio**. In particular, the RFCIP2 identifies the targeting of farmers and small/ micro-entrepreneurs involved in productive activities, including members of Farmer-based Organizations (FBOs), Inland Valley Swamps (IVS) and Agricultural Business Centres (ABCs).

38. Both the RFCIP2 and the SCP-GAFSP are part of the National Sustainable Agriculture Development Plan (NSADP) and is in line with MAFFS approach to encourage farmers to move their cultivation into the swamps and to shift towards more stable perennial and tree crops in the uplands. The planned expansion/new development of IVS, which in Sierra Leone remain relatively untapped mainly in reason of the initial high cost and labour inputs, is an example of this approach. Hydrological characteristics of IVS favour the production of rice both in the rainy and dry seasons and have the potential for sustainable agricultural production, with availability of water and better soil fertility than the uplands.

39. The SCP-GAFSP and RCPRP plus concept fairly takes into account the environmental sustainability dimension, which is fundamental if the country wants to achieve the objective of making agriculture the engine for socio-economic growth and development. No major environmental impacts are foreseen at this stage and the on-going IFAD portfolio of projects/ programmes represents an untapped opportunity to transform the Sierra Leonean agricultural sector into a sustainable and climate-smart production system that increases at the same time productivity and resilience (adaptation) while reducing deforestation and the encroachment of agriculture into natural ecosystems. This would enhance the achievement of national food security and development goals.

40. Since small commercial agriculture activities may generate unexpected cumulative impacts, a careful design of an appropriate monitoring system is deemed necessary. In addition, environmental-related concerns and/or opportunities for improvement exist and are being reviewed through the Environmental and Social Assessment already envisaged under the SCP-GAFSP. In particular, the following issues will be tackled.

41. **Adoption of sustainable and climate-smart agricultural practices.** The major environmental problems in the country are associated with deforestation and land degradation driven by slash and burn agriculture. While such ongoing projects like the SCP-GAFSP and RCPRP takes care of increasing production and access to market, it does not propose any alternative approach at a large scale that could result in a concrete mitigation of the deforestation/degradation problem, except through tree crops rehabilitation (which is promoted further via the agricultural rehabilitation loan product under the proposed RFCIP2). An opportunity in this direction is represented by the FFS approach that will be employed. The SCP-GAFSP foresees the formation of FBOs trained in technical areas through the FFS methodology. The FFSs could

systematically promote methods and practices that increase organic nutrient inputs, therefore reducing the need for synthetic fertilisers, improve water use efficiency, test varieties adapted to new agro-ecological conditions, etc. Successful examples of these practices already exist in Sierra Leone and ongoing IFAD-supported projects could easily build on these pilot experiences to scale them up.

42. **Addressing health-related risks.** There are some environmental and health concerns associated to IVS development, namely: iron toxicity, leaches, and cold and rain conditions that increase the risk of catching cold and pneumonia. Other water related diseases, such as *schistosomiasis (bilharzias)*, malaria and *onchocercosis* also exist, as well as weeds that disturb healthy plant growth, such as *Mimosa pudica*, *Imperata cylindrica* and *Passiflora foetida.* Water abstraction by the swamps could hamper the development of or transmit pollution to downstream areas. Rice FFSs already cover environment and natural resource management related topics, as well as health concerns (training to mitigate the impacts of water borne diseases). However, with the planned increase in use of fertilisers and pesticides, trainings on proper use and disposal need to become a key integral part of all FFS curricula, including upland FFS. In any case, compliance with the principles of the International Code of Conduct on the Distribution and Use of Pesticides of FAO should be ensured and any pesticide formulation which would be classified as Extremely Hazardous (Class Ia) or Highly Hazardous (Class Ib) according to the WHO Recommended Classification of Pesticides by Hazard should be used. Alternative solutions such as IPM and use of water to control weeds in the swamps should be encouraged when feasible.

43. **Promotion of organic production.** Tree crop plantations are of great economic importance for the smallholder agricultural sector and for the country, which is well recognized by the RFCIP2 and is a contributing factor to its promotion of the rehabilitation loan product. Cocoa and coffee plantations have been abandoned during civil war, and after peace was restored farmers found it extremely difficult to attain pre-war production levels. However, the potential of this sector for Sierra Leone is promising, as there are growing markets for high quality Organic and Fair Trade cocoa as well as an expanding market for quality Robusta coffee. Prices for good quality and certified cocoa and coffee are less susceptible to market fluctuations and this encourages further investment and assures sustainability. The promotion of cocoa and coffee agro-forestry systems is very positive for the environment, as it preserves the biodiversity of the tree-crops plantation and is also more resilient to climate change. Under existing projects (EU, IFAD RCPRP) several development agencies, cooperatives and the private sector have linked up to promote investments and many benefits have already been realised.

44. **Alignment with the Sierra Leone Food Safety Action Plan.** In the context of RFCIP2's promotion of the equipment and processing loan product, food processing and value addition processes should be aligned with the existing frameworks that strengthen national food regulatory systems. The recent (June 2010) *Sierra Leone Food Safety Action Plan 2010-2015*, prepared by the Sierra Leone Standards Bureau, includes a thematic area on Food Safety on the Farm which foresees collaboration between National Food Safety Authority (NAFSA) and the phytosanitary unit of MAFFS to develop and adapt Good Agricultural Practices (GAP) and Good Hygienic Practices (GHP). Through such mechanisms like the FFS, farmers can be educated in applying GAP and GHP, resulting in reduced post-harvest loss, improved quality of the final products and increased marketability, by addressing at the same time health and safety concerns.

Environmental category

45. Sierra Leone has ratified all the most relevant environmental conventions: CBD, UNFCCC, UNCCD, Ramsar, CITES, and related national policies and strategies have been introduced; however their successful implementation has remained elusive due to the ten-year internal conflict.

46. The key legal texts on Environment in Sierra Leone are:

(a) **Wildlife Conservation Act,** 1972. It makes provision for the establishment of the different categories of protected areas.

(b) **Forestry Act**, 1988. It contains policy and legislation on the use and management of forest resources, with emphasis on community forestry as a mechanism for sustainable forest exploitation.

(c) Both the Wildlife conservation Act and the Forestry act have been reviewed and updated but the enactment of the reviewed documents is still pending.

(d) **Environment Protection Act**, 2000. It provides for the effective protection of the environment, the administrative machinery to ensure such protection and for other related matters. It has been repealed by the Environment Protection Agency Act in 2008.

(e) **Environment Protection Agency (EPA)** Act, 2008. It establishes the Sierra Leone Environment Protection Agency, to provide for the effective protection of the environment and for other related matters.

47. The Sierra Leone Environmental Protection Agency (SLEPA) acts as the focal point on all issues concerning the environment and coordinates and monitors the implementation of national environmental policies.

48. In addition it performs a number of functions, including: (i) advise the Minister on the formulation of policies on all aspects of the environment and in particular make recommendation for the protection of the environment; (ii) co-ordinate the activities of bodies concerned with the technical or practical aspects of the environment and serve as a channel of communication between such bodies and the President;(iii) issue environmental permits and pollution abatement notices for controlling the volume, types, constituents and effects of waste discharges, emissions, deposits or other source of pollutants and of substances which are hazardous or potentially dangerous to the quality of the environment or any segment of the environment issue notices in the form of directives, procedures or warnings to such bodies as it may determine for the purpose of controlling the volume, intensity and quality of noise in the environment; (iv) prescribe standards and guidelines relating to ambient air, water and soil quality, the pollution of air, water, land and other forms of environmental pollution including the discharge of wastes and the control of toxic substances; (v) ensure compliance with any laid down environmental impact assessment procedures in the planning and execution of development projects, including compliance in respect of existing projects; (vi) initiate and pursue formal and non-formal educational programmes for the creation of public awareness of the environment and its importance to the economic and social life of Sierra Leone; (vii) promote effective planning in the management of the environment develop a comprehensive database on the environment; etc.

49. In line with Section 23 (1) of the EPA Act, 2008, SLEPA is also in charge of issuing environmental licences for all projects that impact or have the potential to impact on the environment (SLEPA/EIA/ADM/02). Whilst the RFCIP2 is not directly subject to an Environmental Impact Assessment Study, it will not deviate from principles of the ongoing projects that have been subject to the study.

50. With specific reference to the financing facility of RFCIP2, any proposed micro-projects are to be appraised by the financial institution to ensure that they are in compliance with the environmental laws and standards in the country. The facility's Investment Guidelines will also include a section on environmental standards.

51. In light of the above, the RFCIP2 project is not expected to have overall negative environmental impacts. The major concerns are associated with the increased use of fertilisers and pesticides that might result from access to credit for these inputs, and subsequently their impact on biodiversity. Training on proper use and disposal, as well as the design of an appropriate

monitoring system that would permit to timely address unexpected negative impacts are considered sufficient mitigation measures.

52. On the basis of the above and according to IFAD's Administrative Procedures for Environmental and Social Assessment, RFCIP2 has been classified as **Category B.**

Recommended features to improve natural resource management and mitigate environmental concerns

53. As previously described, most agricultural interventions that would be indirectly supported by the programme through access to agricultural financial products, would generally have positive environmental impact; those micro or sub-projects that may have a negative impact, would have been appraised by the loan officers in the financial institutions (who are expected to have experience in agriculture) and would not be eligible for financing. Where there may be issues, measures to eliminate or reduce potential adverse environmental and social impacts and to make better use of environmental opportunities have already been foreseen in Section D and E above.

54. A summary of proposed recommendations are provided below:

(a) Awareness creation on specific environmental issues would be included in technical training sessions (e.g. soil and water conservation techniques, sustainable agricultural practices, bush fire prevention and biodiversity conservation);

(b) Loan purposes would be monitored by the financial institutions supported under the Programme and the environmental impact of the various categories of economic activities would be regularly assessed by the TAA and NPCU; the Programme would establish a 'negative list' of loan purposes, which would not be eligible for support due to their potential negative impact on the environment;

(c) Provision of credit for agrochemicals would be subject to proof of good knowledge of their application; and

(d) Investment in infrastructure or larger enterprises supported by the Programme would require environmental assessment which must confirm that it would not be harmful to the environment.

Appendix 13: Contents of the Project Life File

SIERRA LEONE PORTFOLIO:

- Sierra Leone Country Strategic Opportunities Programme (COSOP) 2010-2015
- SCP-GAFSP Project Design Report
- RFCIP Project Design Report
- RCPRP Project Design Report
- RFCIP Mid-term Review Report (2012)

GoSL POLICY DOCUMENTS:

- National Sustainable Agriculture Development Plan 2010-2030 (NSADP)
- National Agricultural Investment Plan (NAIP)
- Financial Sector Development Plan (FSDP)

RFCIP2 DOCUMENTS:

- QE Panel Report
- CPMT Minutes (June, July, August and October 2012)
- In-country CPMT Minutes (September 2012)
- Working Paper: Apex Business Plan and AFF Guidelines
- RFCIP2 Economic Analysis (excel file)
- AFF drawdown and equity to CBs (excel file)