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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

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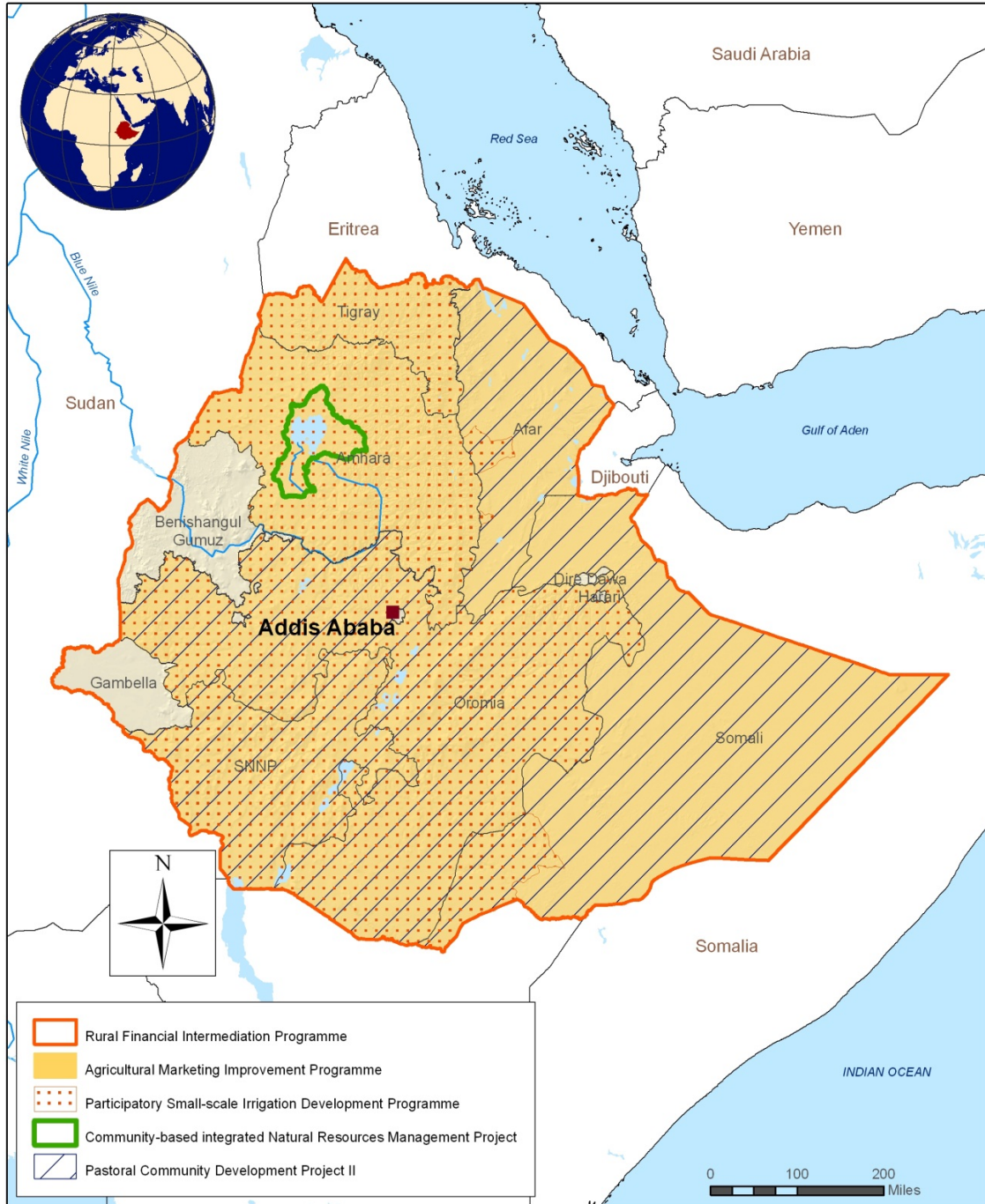
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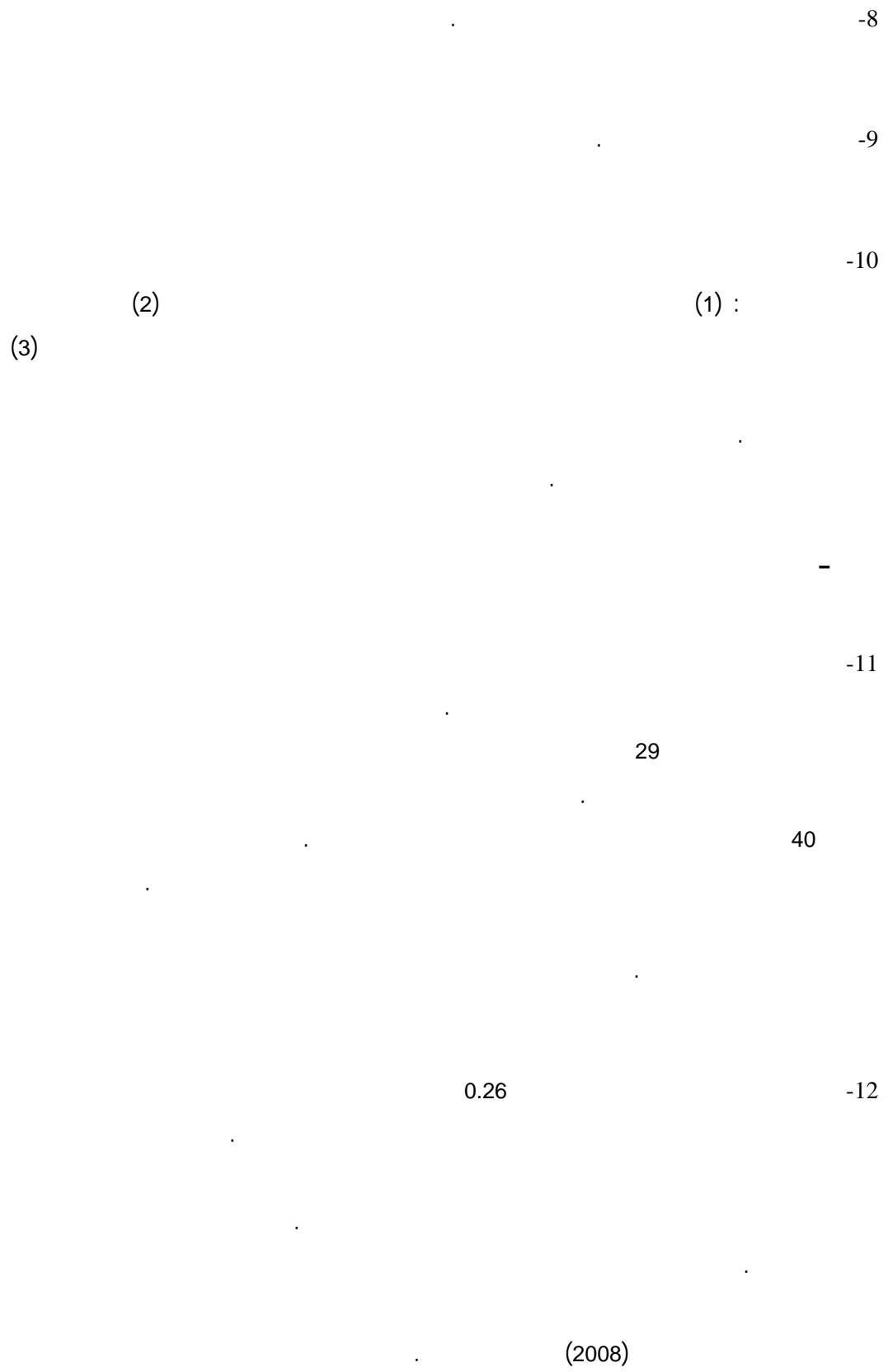
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Negotiated financing agreement: "Rural Financial Intermediation Programme II (RUFIP II)"

(Negotiations concluded on 24 August 2011)

Loan Number: _____

Grant Number: _____

Programme Title: Rural Financial Intermediation Programme II (the "the Programme")

the Federal Democratic Republic of Ethiopia (the "Borrower/Recipient")

and

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

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the Loan is SDR 31 300 000.
 - B. The amount of the Grant is SDR 31 300 000.
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 8 July.
5. Payments of principal and service charge shall be payable on each 1 March and 1 September.
6. The Borrower/Recipient shall provide counterpart financing for the Programme in the equivalent of USD 5.9 million.

Section C

1. The Lead Programme Agency shall be the Development Bank of Ethiopia (DBE).
2. The following are designated as additional Programme Parties: the National Bank of Ethiopia (NBE), the Federal Cooperative Agency (FCA), Regional Cooperative Promotion Bureau (RCPB), the Association of Ethiopian MFIs (AEMFI), participating MFIs, and participating Rural Saving and Credit Cooperatives (RUSACCOs) and their Unions.
3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Programme supervised by IFAD.

Section E

1. This Agreement is subject to ratification by the Borrower/Recipient.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

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

For the Borrower/Recipient:

Minister of Finance and
Economic Development
P.O. Box 1905
Addis Ababa, Ethiopia

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

For the Fund

For the Borrower/Recipient

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit at least 6.9 million rural households in the rural areas of Ethiopia targeting smallholder farmers, pastoralists, agro-pastoralists, artisanal fishermen, women, landless labourers and the youth in the rural areas of Ethiopia and synergies will be sought with IFAD's ongoing projects throughout the country. In that respect, the overall design for both geographic and household targeting is driven by the need to develop operationally sustainable rural financial institutions and systems with a focussed mission to increase access to poor households. Therefore, the Programme shall not be confined to any geographic location.

2. *Goal.* The goal of the Programme shall be to contribute to the reduction of poverty in rural Ethiopia.

3. *Objective.* The objective of the Programme shall be to provide access to a range of financial services for an estimated 6.9 million rural households in Ethiopia building on the accomplishments of the Rural Financial Intermediation Programme I (RUFIP I). The Programme shall achieve this through a nationwide network of Microfinance Institutions (MFIs) and 5 500 RUSACCOs and RUSACCO Unions. The Programme shall also support these Rural Financial Institutions to bridge their liquidity gap through a credit fund, and improve the policy environment including regulatory and supervisory architecture.

4. *Components.* The Programme shall consist of the following four components: (i) institutional development in the microfinance and cooperative sub sectors including knowledge management; (ii) improved regulation and supervision of MFIs; (iii) credit funds for MFIs and RUSACCOs; and (iv) Programme coordination and management.

4.1 *Component 1 Institutional Development of MFIs and Cooperative Subsector.* This component shall support: (a) Management Information System (MIS) improvement through technology up-grading; (b) human resource development through a range of appropriately structured training programmes covering management and operating staff across the sector; (c) improved mobility for outreach; and (d) research and knowledge management comprising studies on micro finance products, liability (financial instruments to raise resources) product study, financial literacy for clients and support to AEMFI, a key resource institution for the sector.

4.2 *Component 2 – Improved Regulation and Supervision of MFIs and RUSACCOs.* This component shall support (a) the development of technology based off-site supervision project; (b) reviewing and updating supervision manuals; (c) improving MFI statutory audit framework; (d) the design of financial literacy programme for MFI clients; (e) policy seminars; and (f) skill and knowledge development of staff of the MFI department of NBE through a series of well-designed and structured training inputs. The Programme will also finance technical assistance to the National Bank of Ethiopia for development of a policy framework covering: (a) establishment of a microfinance apex institution; (b) micro insurance including regulatory framework; (c) integration of MFIs into national payment and settlement system; (d) approach to branchless banking by MFIs; (e) need for and feasibility of access of MFIs to credit information centre; and (f) governance code of MFIs.

4.3 *Component 3 – Credit Funds for MFIs and RUSACCOs.* The credit funds will support the growth of the savings and loan portfolios of the MFIs and RUSACCOs.

II. Implementation Arrangements

38. The Programme shall be coordinated through the DBE. The DBE shall re-establish the Programme Management Committee (PMC) created for the RUFIP I with representation for all stakeholders and with enlarged terms of reference. In addition, the PMC shall establish a sub-committee comprised of the President of DBE; the Executive Director of AEMFI; the Director of Micro-finance Institutions Department of NBE, the RUFIP II Programme Director and the National Programme Coordinator in the FCA to deal with routine operational matters as and when necessary. The membership of the sub-committee may be changed from time to time by agreement of the Borrower/Recipient and the Fund.

39. The Programme Coordination and Management Unit (PCMU) of RUFIP I shall be reconstituted with well qualified and experienced staff as may be satisfactory to IFAD. Remuneration levels for PCMU staff shall be competitive with market rates. The Programme Director shall directly report to the President of DBE and shall be delegated financial and operational powers sufficient to provide operational autonomy for the PCMU, as well as logistic support as may be necessary. The PCMU shall more or less function like a special purpose vehicle under the overall direction of the PMC and the President of DBE.

3. Under the Programme, the policy direction of the National Rural and Micro-Finance Policy Steering Committee (NRMFPC) shall assume a greater dimension, and emerging new policy initiatives shall be addressed, such as: a policy decision on the establishment of national micro-finance apex institution, micro-insurance policy and regulatory framework for the micro-insurance sector, integration of MFIs into the National Payment system, product development for market access improvement of MFIs, improved regulation and supervision of the MFI sector, etc. The NRMFPC shall also provide an interface to IFAD for policy dialogue and consultative process. The NRMFPC shall be a key pillar of the management structure of the Programme, setting the tone for the overall development and direction of the micro-finance sector. The NRMFPC shall be reconstituted by the National Bank of Ethiopia, with expanded representation and terms of reference acceptable to IFAD. The NRMFPC shall be headed by the Vice-Governor, NBE, or such other senior official as may be agreed between the Borrower/Recipient and IFAD.

4. The FCA shall establish a Programme Coordination Implementation Committee, comprised of the head of the FCA (Chairman) and heads of RCPBs and the National Programme Coordinator, for effective management and implementation of Programme activities relating to financial co-operatives components. The main functions of the Programme Coordination Implementation Committee shall include: planning implementation strategies and promotion processes of rural financial cooperatives; processing of annual work plans and budgets for transmission to the PCMU; quarterly review of the implementation of various sub-components and performance of rural financial cooperatives; etc.

5. The FCA and RCPBs shall also establish Programme Management Units (PMUs) comprised of a coordinator, monitoring and evaluation officer and training coordinator with such support staff as may be necessary for satisfactory implementation of the Programme. The PMU staff shall be appointed with qualifications and experience satisfactory to the Fund. All staff shall be recruited through a competitive process with posts open to highly qualified candidates from the public and private sector. Remuneration levels for the staff of the PMUs shall be competitive with market rates. The PMUs shall primarily be responsible for overall implementation of the rural financial cooperative component under the direction of the PCMU and the PMC. The coordinator of the PMU established by the FCA shall work in close coordination with the Programme

Director and shall bring about necessary effective liaison between the PCMU and the various PMUs in the RCPBs.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Goods, equipment and vehicles	-	4 020 000	100% net of taxes
II. Local support services, including institutional grants	-	3 070 000	100% net of taxes
III. Technical assistance, training and studies	-	4 960 000	100% net of taxes
IV. Incremental credit	28 170 000	16 120 000	100% net of taxes
Unallocated	3 130 000	3 130 000	
TOTAL	31 300 000	31 300 000	

2. *Start-up Costs.* All withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall be subject to prior approval by the Fund.

Key reference documents

Country reference documents

Growth and Transformation Plan 201/11-2014/15. MOFED

IFAD reference documents

Project design document (PDD) and key files

COSOP

Administrative Procedures on Environmental Assessment

Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions/Risks
Goal			
The programme goal is to contribute to the reduction of poverty in rural Ethiopia	Reduction in chronic malnutrition amongst children under 5; Increase in ownership of assets among beneficiaries (data disaggregated by gender)	Baseline, MTR and Programme Completion surveys; CSA surveys/reports	Sustained domestic and regional political stability; Macro-economic stability
Development Objective			
Increased access to a range of financial services by rural households sustained	Increase in access to financial services from MFIs and RUSACCOs (and their unions) from a baseline of about 3.3 million in June 2012 to at least 6.9 million mainly poor rural households in Ethiopia by June 2019	MIX market; AEMFI annual report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Profitability of small holder agriculture is sustained Limited or no political interference in management of RFIs
Component 1: Institutional development in the microfinance and cooperative sector			
Outcomes 1.1: Increased number of operationally sustainable MFIs established and fully operational	At least 30 operationally sustainable MFIs with 6.142 million clients in operation by 30 June 2019 27% annual growth in savings amongst MFIs.	AEMFI annual performance review report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Projected net profit margins are maintained Tax exemption on MFI profits maintained
Outcomes 1.2: Operationally sustainable community banking network of RUSACCOs (and their unions) established and fully operational	At least 5 500 operationally sustainable RUSACCOs (and their unions) in operation by 30 June 2019 with about 765,000 members (data disaggregated by gender)	AEMFI annual performance review report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	
Component 2: Improved regulation and supervision of MFIs and Rural Financial Cooperatives			
Outcome 2.1: Enhanced regulation and supervision capacity of NBE and FCPA in place.	<ul style="list-style-type: none"> ▪ at least one off-and-on-site supervision for each MFI per year ▪ # of RUSACCOs and their unions audited per year against baseline ▪ # of literacy programmes implemented for MFI clients per year and positive client feedback on training programme 	AEMFI annual performance review report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	
Component 3: Increased/Improved rural finance outreach			
Outcome 3.1: Increased savings and loan portfolio growth for MFIs and RUSACCOs (and their unions)	<ul style="list-style-type: none"> ▪ % increase in average annual growth rates of savings, capital, and loan portfolio against baseline (or volume of savings mobilised projected by year) ▪ % average annual increase in loan size 	MIX market; AEMFI annual report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Commercial funding of MFIs is sustained