

Government of the Republic of Sierra Leone

United Nations Capital Development Fund

**Development of a Sustainable Pro-Poor Financial Sector
in Sierra Leone
(2004 -2009)**

Executive Summary

At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US\$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US\$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system.

PART I.

A. Situation Analysis¹

A.1 Country Context

1. The population of Sierra Leone is estimated to be 5.6 million inhabitants, with an estimated 935,800 households. Estimates are that the informal sector accounts for at least two-thirds of the total labor force, and 70% of the urban labor force. Of the total population around 65 percent lives in rural areas. Ten years of war resulted in a decline in social indicators putting Sierra Leone at the bottom of UNDP's Human Development Index. More than 80 percent of the population has an income below the poverty line of \$1 per day.

2. There is, however, renewed hope that enduring peace has returned. Disarmament was completed in January 2002, civil authority has been gradually restored throughout the country, Presidential and Parliamentary elections were peacefully held in May 2002, and over 300,000 internally displaced persons and refugees have returned to their places of origin.

3. The improved security situation provided through the support of UNAMSIL has facilitated the resumption of economic activities. Real GDP is estimated to have risen by 6.4 percent in 2001 and by 6.3 percent in 2002. The rate of inflation has fallen sharply from 37 percent in December 1999 to -3.1 percent in 2002. The exchange rate is relatively stable, and interest rates have also declined in line with the fall in inflation.²

A.2 Microfinance Sector Development in Sierra Leone

Supply of Microfinance

4. The landscape of microfinance operations in Sierra Leone is comparable to other post conflict situations. Present capacity is basic, outreach is still very limited, while none of the operations are yet sustainable. A shift has been made recently from a relief towards a business like orientation with a focus on sustainability. This shift was accelerated by the microfinance policy recently approved by the Government (see chapter II.B).

5. Of the six commercial banks in Sierra Leone, a few expressed interest in lending to microfinance institutions provided sufficient security is offered. The Sierra Leone Commercial Bank is the only commercial bank that is planning to engage in microfinance by establishing a microfinance unit in June 2003.

6. The two development banks, the National Development Bank (NDB) and the National Cooperative Development Bank (NCDB) are engaged in microfinance. NDB had 1,600 active borrowers in April 2003 but plans to shift to wholesaling to MFIs after its restructuring process. NCDB had 600 active borrowers in April 2003 and plans to transform into a corporate financial institution. The Bank of Sierra Leone (BoSL) has established as pilots two community banks that provide microfinance, and plans two additional pilots.

¹ See "Microfinance Sector Development in Sierra Leone, An Assessment", May 2003, www.uncdf.org/sum for a more detailed analysis of country context, supply and demand for microfinance, legal environment, prior assistance, government policy, opportunities and constraints, and stages of sector development.

² Government of Sierra Leone, National Micro-Finance Policy, November 9, 2002, p.4.

7. The Social Action and Poverty Alleviation Programme (SAPA) is the microfinance window of National Commission for Social Action (NaCSA), which is a Government programme supported by the AfDB and the World Bank. SAPA's NGO program provides loans to 50 NGOs for the purpose of on-lending to individuals or groups. SAPA has developed strict guidelines that include the terms under which the loans can be on-lent. From its inception the NGO program lent Le 710 million until April 2003 to microfinance NGOs.

8. The combined active clients base of Microfinance NGOs and programs is around 15,000 borrowers with a total loan portfolio outstanding of around US\$ 1,000,000. There are around 50 to 60 microfinance NGOs, projects and programs in Sierra Leone. Most of these microfinance operations are small and institutionally weak with an outreach of less than 200 clients. The MFIs at present with the highest outreach include World Hope, ARC, ARD, and PRIMED. They have a client base between 400 and 4,000 clients. These institutions and programs would all require considerable capacity building and capital support to become sustainable MFIs.

9. Sierra Leone has two indigenous financial mechanisms that provide access to credit. Osusu or rotating savings and credit associations (ROSCAs), are common throughout the country. Group members enforce credit discipline and may claim any part of a defaulter's assets. Given the low-income of most members, the amounts mobilized are not sufficient to generate significant funds. Moneylenders are also found throughout the country, with the common terms of borrowing being a 2 for 1 system. Borrowers often come for emergencies, and indebtedness can rapidly build. Repayment is also strongly enforced.

Demand for Microfinance

10. Sierra Leone has a thriving informal sector. Many households earn their livelihood by running a micro or small business. Most of these household have no or limited access to microfinance. If one assumes that 12 percent of the total households could be an active borrower of a loan between Le 100,000 (US\$ 40) and Le 10 million (US\$ 4,000), the total potential active client base would be 91,000 households with a total active loan portfolio of Le 62 billion (US\$ 24.8 million). In case 20 percent of the total households would be an active borrower of a loan between Le 100,000 (US\$ 40) and Le 10 million (US\$ 4,000), the total potential active client base would be 160,000 households with a total active loan portfolio of Le 109.2 billion. (US\$ 43.7 million). Given the present supply and the estimates above, the unmet demand comprises 76,000 to 145,000 customers and a financing gap of US\$ 20 to 40 million.

Legal Environment

11. Financial sector reforms were a key component of economic reforms between 1992-97, including the liberalization of interest rates and elimination of directed credits and credit ceilings. The Bank of Sierra Leone Act and the Banking Acts were revised in 2000, and the Other Financial Institutions Act was introduced in 2001.³

Prior and Ongoing Assistance to the Microfinance Sector

12. Donor funded support to microfinance has been limited to date. The World Bank and African Development Bank (AfDB) supported the microfinance policy process. AfDB has also, through its support to the National Commission for Social Action (NaCSA), supported the SAPA programme and, is currently discussing continued support. The World Bank has made available potentially up to \$6.5 million of additional support to the sector. Various NGO-MFIs have received limited support from few donors. There has been no significant donor support to microfinance as most donor funding has focused on recovery and resettlement.

³ Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.5.

A.3 Opportunities and Constraints for Development of Microfinance Sector

Opportunities

13. The potential demand is high: the indicative demand estimates illustrate that there is a large gap between the demand and supply of credit for micro and small business activities. Entrepreneurial activities are wide spread and microfinance has been an inherent part of the Sierra Leone local culture through widespread ROSCA's and traditional money lenders.

14. Poverty alleviation, private sector development, microfinance and employment generation are high priorities for the Government. The Government has recently adopted a national policy on microfinance. This policy provides a framework that is conducive for the development of the microfinance sector and its integration into the commercial financial sector.

15. The legal and regulatory framework is conducive for a microfinance industry to emerge and expand. The Bank of Sierra Leone is supportive of developing an inclusive commercial financial system. In a short period around sixty players have emerged in the field of microfinance. Although operators are still small in size and require additional investments, many expressed a strong commitment to manage their organization as a business with the longer term objective to become independent of subsidies.

Constraints

16. At present, none of the microfinance operators are commercially viable. Virtually all operators use product methodologies developed in other countries that are not yet fully adapted to the market realities of Sierra Leone. International experience shows that the emergence of market leaders that demonstrate significant scale and commercial viability is essential for a rapid expansion of the microfinance sector. These leaders function as role models for peers by having demonstrated that customers at the lower end of the market are bankable. At present such leaders have not yet emerged in Sierra Leone.

17. A major constraint is the lack of funding needed by microfinance operators to professionalize and expand their operations. Only SAPA and a few other donors provide limited funding. Most of these donors have not yet adapted their policies in line with the national policy. Most major donors have concentrated their programs on relief, rehabilitation and reintegration. Microfinance operators need financing for expansion, infrastructure and capacity building in order to be able to reach sustainability. "Capacity building of institutions and individuals in the sector is by far the most pressing and needed intervention given the developmental stage of the sector"⁴.

18. Numerous actors note that the market was distorted due to grant and subsidized credit programs from government and donors. The shift from grants to loans has caused confusion for some clients. There is a need to reshift people's perception from charity to self-reliance. The banking infrastructure was also destroyed, causing the need to reconstruct safe deposit services.

19. Despite the limited number of donors, the lack of coordination is perceived as a constraint. Some donors do not adhere to internationally accepted best practices in microfinance by setting interest rate ceilings, providing highly subsidized interest rates and by exclusively targeting customers with predefined common characteristics. The government's microfinance policy is built on the experience that unsustainable microfinance programs distort the market and undermine the emergence of a sustainable microfinance industry. At present

⁴ National Policy of the Government of Sierra Leone, page 20

there is no professional and permanent focal unit for microfinance in the Bank of Sierra Leone to ensure inclusive financial sector development, standards and transparency.

20. As the microfinance sector matures, it is important that regulations are formulated that stipulate the prudential and licensing requirements. These regulations would take into account the unique characteristics of microfinance and would allow further integration of the microfinance sector into the commercial and regulated financial sector.

A.4 Host Country Government Policy and Strategy on Microfinance

21. The Government's National Recovery Strategy (2002-03) includes microfinance as one of the four key areas of intervention for restoration of the economy, given that the 'country's large informal economy has the potential to absorb huge numbers of the working population.'⁵ The Interim Poverty Reduction Strategy Paper (June 2001) stresses the importance of promoting microenterprises, and the extension of microfinance and banking services within the context of developing the private sector to stimulate recovery and growth.⁶

22. A Government Task Force⁷ developed a National Microfinance Policy recently approved by Cabinet. The policy states that the past lack of guidelines has led to a tendency of 'undermining good initiatives in the sector', and acknowledges that 'the Government will therefore disengage from any direct involvement in the provision of micro-credit'⁸. It is thus necessary to clearly define the country's vision for the sector, and how it could 'be integrated within the mainstream national economy.' The stated vision behind the policy is: "To develop and integrate micro-finance into the broader financial system and facilitate the provision of viable and sustainable micro-finance services to low income Sierra Leoneans in a transparent and accountable manner for meaningful productive activities and thereby contribute to economic growth and reduce poverty."⁹

23. The policy describes the following key principles': 1) Disciplined management; 2) Transparency, with donors, government, clients and public having the right to know status; 3) Reporting and accountability, with regular operational, financial and audit reports; 4) Pricing, with MFIs free to set prices reflecting the prevailing market conditions and their internal costs; 5) Delinquency control, capability for timely and full loan repayment; 6) Appropriate techniques and products, a variety of collateral substitutes and repayment incentives can be used; 7) Gender consideration, enabling the participation of women; 8) Governance, sound structures suitable to the institutional type, and largely free from government and political interference.

24. The strategies to realize these objectives include: 1) Market oriented financial and credit policy conducive for broadening and deepening of micro-financial services for effective and efficient functioning of the financial market; 2) Establishment of a legal framework that promotes increased intermediation; 3) Developing national capacity for sound policy review, programme design, implementation, management, supervision and monitoring; 4) Coordinating activities in the micro-finance sector in order to avoid duplication and over-subscription and enhance fair distribution of micro-finance resources available in country.¹⁰

⁵ National Recovery Strategy, Sierra Leone, 2002-2003, p.57.

⁶ Interim Poverty Reduction Strategy Paper, June 2001, p.36.

⁷ Comprised of members from the Ministry of Development and Economic Planning; Bank of Sierra Leone; Ministry of Finance; SAPA; Sierra Leone Commercial Bank; and Association for Rural Development.

⁸ Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.10. Note, the Ministry of Finance Budget submitted to Parliament end November 2002 excluded a previous budget line for Government micro-credit.

⁹ Ibid.

¹⁰ Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.4.

A.5 Conclusion

25. At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US\$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US\$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system.

B. Strategy

B.1 Programme Strategy

26. World leaders have pledged to achieve the Millennium Development Goals (MDGs), including the overarching goal of cutting absolute poverty by half by 2015. UNDP coordinates global and national efforts to reach these Goals.

27. Providing sustainable access to financial services to poor and low-income people is considered an effective tool for poverty reduction. Comprehensive impact studies have demonstrated that: (i) microfinance helps poor households meet basic needs and protect against risks; (ii) the use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth; (iii) by supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being; (iv) for almost all significant impacts, the magnitude of impact is positively related to the length of time that clients have been in the program.¹¹

28. The overarching goal of the programme is to contribute to the achievement of the Millennium Development Goals, in specific the goal of cutting absolute poverty by half by 2015, by increasing sustainable access to financial services for poor and low-income people in Sierra Leone. The programme will contribute to this goal by developing a competitive and sustainable inclusive financial sector that provides access to financial services to poor and low-income people in general and micro and small businesses in particular.

29. Experience in other countries demonstrates that major constraints need to be addressed for the microfinance sector to advance rapidly from the start-up phase into the expansion phase. The principal constraint is the absence of professional microfinance institutions that drive the development of the microfinance sector. Experience elsewhere has shown that such leaders function as role models for peers and the public in general by demonstrating that people and enterprises at the lower end of the market are bankable. Providing considerable support to professionalize potential market leaders in Sierra Leone is therefore crucial for the microfinance sector to develop rapidly. In addition, it is considered important that investors in the microfinance sector coordinate their efforts in order to guarantee a smooth and rapid development of the microfinance sector and effective use of public funds.

¹¹ Clients in Context, The Impacts of Microfinance in Three Countries, Assessing the Impact of Microenterprise Services (AIMS), USAID, January 2002 (www.mip.org).

30. Secondly, it is essential that an enabling environment is shaped to optimally develop the growing sustainability and outreach of the young microfinance industry. For this purpose a microfinance unit will be established in the Bank of Sierra Leone that will act as a focal point to guide the development of an inclusive financial sector. Furthermore, a series of measures will be taken to increase general awareness of sound microfinance principles.

31. The Project will address these issues by concentrating on four mutually reinforcing programme outputs to support the development of a competitive and sustainable inclusive financial sector. The first two outputs are related to the development of the microfinance industry itself while outputs three and four are related to the development of an enabling environment (see Figure 1. Objectives and Outputs)

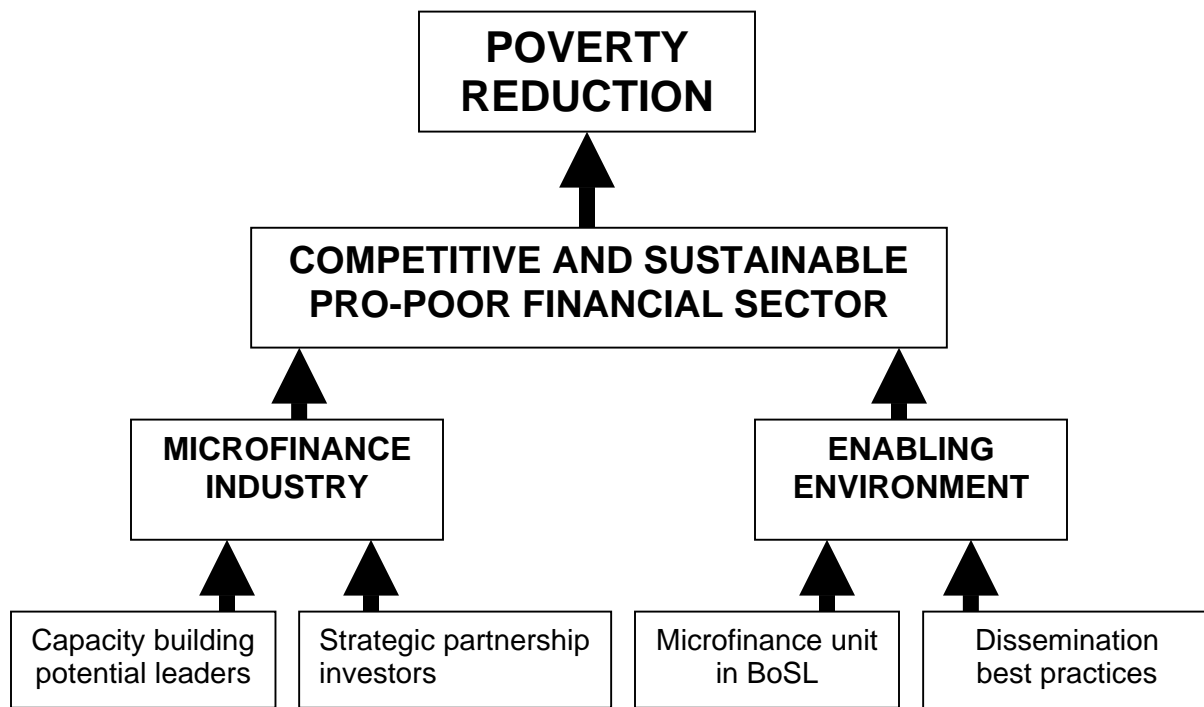
32. Output 1: Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment. The Project will support institutions that have the potential to become future market leaders which includes commercial banks that plan to downscale their operations. Potential candidates will be selected based on an institutional assessment, a realistic business plan and capacity building proposal. Proposals need to be approved by the Project Investment Committee. Approved proposals will result in a performance-based agreement between donors and the institution. The size, nature and timing of support will be defined in the Agreement.

33. Output 2: Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable pro-poor financial sector. A Project Investment Committee will be established to approve capacity building proposals of MFIs and to facilitate donor investment in MFIs that are potential market leaders. The Project will be designed to function as an effective and conducive mechanism for donors to channel their investments to MFIs (see part III for details on management arrangements). The project will engage in active mobilization of additional donor funding to further strengthen the microfinance sector

34. Output 3: A professional microfinance unit has been established in the Bank of Sierra Leone (BoSL) to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system. The microfinance unit in the Bank of Sierra Leone will function as a permanent focal point for the development of a pro-poor financial sector. The project will support the BoSL in the establishment and strengthening of this unit in, among others, the following areas: capacity building of the unit's staff through training and exposure visits to other Central Banks, the establishment of a sector data base, industry standards, transparency criteria and bench marks, sector studies on (potential) constraints and opportunities, advice to policy makers and regulators, information dissemination, development of national capacity in support services to the sector (auditing, accounting, legal, IT) and the shaping of regulatory environment conducive for integrating the microfinance sector into the financial system.

35. Output 4: Sound microfinance principles have been disseminated and are widely accepted and adopted. The Project will take initiatives to create general awareness of "best practices" in microfinance through training via the UNCDF microfinance distance learning training program, fellowships to renowned training institutions, and exposure visits to top-performing MFIs in other countries. With respect to this output, the project will explore opportunities to work closely with the Consultative Group to Assist the Poor (CGAP). CGAP promotes adherence to sound microfinance principles and stresses the importance of aiming at sustainability and outreach.

Figure 1. Objectives and Outputs



Part II.

A. Results and Resources Framework (See Annex I)

Part III.

A. Management Arrangements: Roles and Responsibilities of Project Parties

36. The Bank of Sierra Leone will be the Government counter part of the project. To support the enabling environment, the Bank of Sierra Leone will establish a microfinance unit as a permanent focal point for the development of the microfinance sector (see Annex II for details). The Bank of Sierra Leone will make capable staff, premises and budget available for the microfinance unit. The Bank of Sierra Leone will establish and lead a microfinance sector development working group with representatives of institutions that are supported by the project to periodically review the policy, regulatory and supervisory framework for microfinance, constraints and opportunities that influence the sector and to identify changes needed for the sector to develop as an integrated part of the financial system.

37. UNCDF/SUM will serve as executing agent for its own funds, and will act as the implementing agency for some budget lines of UNDP funds. Other donors wishing to make use of these arrangements would be able to do so, under cost-sharing arrangements.

38. The Project will establish an Investment Committee in line with the Government's Microfinance Policy to coordinate activities in the micro-finance sector in order to avoid duplication and over-subscription. Donors and private investors supporting microfinance institutions will be encouraged to join the Investment Committee, chaired by the Bank of Sierra Leone (BoSL) (see Annex 3 for detailed TOR). A Technical Service Provider (TSP) will provide tailored, on the ground, technical assistance to selected MFIs and the BoSL. In order to recruit the best possible technical expertise, UNCDF/SUM will carry out international competitive bidding for the Technical Service Provider (see Annex 4 for TOR). Both individuals and institutions will be encouraged to apply. If an institution is selected as having the best proposal, they will be contracted under a performance-based contract totalling \$2 million over the five (5) years, and the operational budget lines (BLs: 11, 17:02, 17:03, 20, 32, 45, 52, 53) of the UNDP and UNCDF projects will be revised accordingly, compiled into budget line 20 Subcontracts. If an individual is viewed as having the best qualifications to serve as Team Leader, s/he will be contracted with the responsibility to hire the other team members, and manage the \$2 million technical assistance budget. In either case, the Technical Service Provider will submit annual work plans and progress reports to the Investment Committee who will supervise their work.

39. The investment committee will receive business plans and funding proposals from commercial banks, MFIs, and other institutions interested in providing sustainable financial services to low-income clients. Criteria for consideration of proposals from MFIs are also contained in Annex III. Technical officers from the Ministry of Finance and the Ministry of Development and Economic Planning (MODEP) shall sit as observers to the Investment Committee.

40. The administration of this Project shall be governed by UNDP rules and procedures as defined in the Programming Manual within the policy context defined by the Executive Board. This project conforms to the provisions of the Standard Basic Assistance Agreement (SBAA) between the Government of the Republic of Sierra Leone and the United Nations Development Programme signed by both parties on 27 December 1977. The host-country implementing agencies shall, for the purpose of the SBAA refer to the Government co-operating agency described in the Agreement.

41. The total initial programme cost is U.S.\$8.83 million, of which U.S.\$ 2,500,000 is to be provided by UNDP under the current Country Programme. UNCDF's contribution is for \$3.0 million. Five percent of UNDP and UNCDF's funds constitutes administrative costs of the UNDP or UNCDF, according to budget lines implemented.

B. Monitoring, Evaluation and Reporting

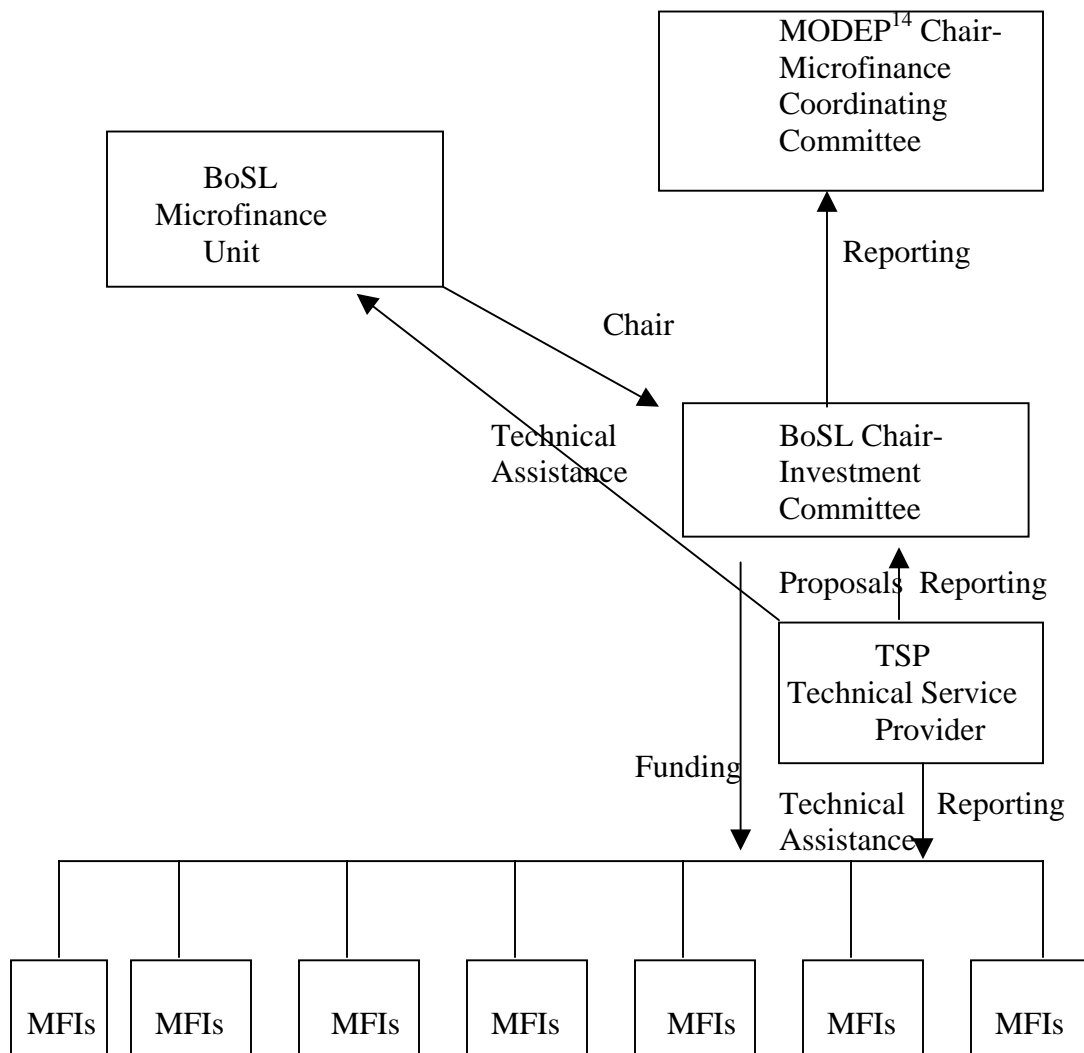
42. The Investment Committee will provide reporting on an annual basis to the Government's Microfinance Coordinating Committee¹² (previously the Microfinance Task Force) on: 1) Investments made; 2) Results achieved by MFIs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. Reports will be posted on UNCDF/SUM's website with links to other programme partners upon request.

43. The Microfinance Coordinating Committee, the Investment Committee and MFIs supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of an inclusive,

¹² See Annex 5 for draft TOR.

sustainable financial sector.¹³ Recommendations emerging from these discussions will be referred to the respective bodies with the mandate to review and implement, where possible. Subsequent annual reviews will examine progress achieved in removing constraints and seizing opportunities.

44. The programme is subject to independent, external mid-term and final evaluations, managed by the UNCDF Evaluation Unit, to assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on their sustainability, its relevance to the national context, and management efficiency. The mid-term evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy during the remaining project period.



¹³ These Annual Meetings shall serve the purpose of Tri-Partite Reviews for UNDP, and be co-hosted by MODEP, and UNDP.

¹⁴ See Annex 6 for draft TOR for MODEP's microfinance unit.

PROJECT RESULTS AND RESOURCES FRAMEWORK*

Annex 1a

<p>Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.</p>			
<p>Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).</p>			
<p>Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector</p>			
<p>Partnership Strategy: Government, Donors, Private Sector, MFIs</p>			
<p>Project title and number: SIL/03/C01</p>			
Intended Outputs	Output Targets for (years)	Indicative Activities	Inputs
<p>1. Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector.</p>	<p>1. Increase from baseline in number of active clients of selected MFIs by: - 10,000 active clients by end of year one (12 months). - 40,000 active clients by end of year three (36 months). - 80,000 active clients by end of year five (60 months). 2. At least three MFIs have become fully self-financing by year 5 3. At least three MFIs have adopted international standards in governance, systems and policies by year 5. 4. At least three MFIs have a large branch network that covers a major part of Sierra Leone by year 5.</p>	<p>- Identify and select potential future leaders of the microfinance sector - Provide support in developing capacity building proposals and performance based agreements - Provide capacity building and capital support to selected MFIs - Provide/arrange tailor made training and expert advice to selected MFIs in all areas relevant for them to reach sustainability like: governance, business planning, profit center approach, financial management, human resource management, MIS and MIS software, product methodologies, transformation etc. - Organize exposure programs to top performing MFIs in other countries.</p>	<p>- Technical assistance as per annual workplans, grants and loans as per MFI agreements and project budget. - Fellowships and Other Training as per project budget</p>

PROJECT RESULTS AND RESOURCES FRAMEWORK*

Annex 1b

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector (Investors, Commercial Banks, Rating Agencies), MFIs			
Project title and number: SIL/03/C01			
Intended Outputs	Output Targets for (years)	Indicative Activities	Inputs
2. Strategic partnerships are built with other donors and private sector in joint support of a sustainable pro-poor financial sector.	<ul style="list-style-type: none"> - Strategic partnerships that enable MFIs access to capital (grants, loans [hard and soft] and commercial equity) are established initially in year 1, then expanded. - Coordination amongst donors/investors from year 1 as donors/investors utilize investment committee framework. - Resources mobilized for MFIs as cost-sharing, parallel financing, or savings mobilization (an additional US\$ 10 million cumulative by year 5) 	<ul style="list-style-type: none"> - Establish Investment Committee. - Develop standardized performance agreements, and MFI reporting. - Build partnerships with other donors - Mobilization of resources for Project and/or MFIs directly 	<ul style="list-style-type: none"> - Technical assistance as per annual workplans and project budget.

PROJECT RESULTS AND RESOURCES FRAMEWORK*

Annex 1c

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector, MFIs			
Project title and number: SIL/03/C01			
Intended Outputs	Output Targets for (years)	Indicative Activities	Inputs
3. A professional microfinance unit in the Bank of Sierra Leone is operational and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system	<ul style="list-style-type: none"> - A Microfinance Unit in BoSL established as a professional focal point for the development of the microfinance industry. - Industry standards developed with MFIs including efficient and transparent information exchange - A microfinance sector data base developed - The support infrastructure for the sector has improved (audit, credit reference bureau) A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system 	<ul style="list-style-type: none"> - Develop a BoSL microfinance unit TOR and staffing - Establish a microfinance unit - Provide/arrange training to unit's staff (f.i.UNCDF Microfinance Distance Learning Course, Boulder Microfinance Course) - Organize exposure visits to other Central Banks Staff to participate in, and exposure programs. - Support development of industry standards through BoSL working group, efficient and transparent information exchange through Investment Committee - Establish and maintain a microfinance sector data base - Support to BoSL for credit reference. -To assist BoSL to review regulatory framework. Draft guidelines discussed with a Microfinance Working Group lead by BoSL. Conduct a seminar on draft with relevant stakeholders 	<ul style="list-style-type: none"> - Technical assistance as per annual workplans and project budget. - Fellowships and Other Training as per project budget. - Seminars as per project budget. Training to take place in Sierra Leone as much as possible.

PROJECT RESULTS AND RESOURCES FRAMEWORK*

Annex 1d

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor and low-income people from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0)			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector, MFIs			
Project title and number: SIL/03/C01			
Intended Outputs¹⁵	Output Targets for (years)	Indicative Activities	Inputs
4. Sound microfinance principles have been disseminated and are widely accepted and adopted.	<ul style="list-style-type: none"> - MODEP NGO-MFI conducive registration and monitoring process established - Government, donors, consultants and practitioners have access to and utilize best practices in microfinance. 	<ul style="list-style-type: none"> - To assist MODEP to review registration and monitoring framework for NGO-MFIs. - Stakeholders to participate in Distance Learning, Boulder Microfinance Course, and exposure programs. - UNDP staff to enroll in Distance Learning, Boulder, SUM/CGAP and participate in exposure programs. - Dissemination of UNCDF/SUM ----- -Distance Learning guide to Government and MFIs. Negotiate --- -MOU for locally tutored DL course. Conduct a training programs for auditors. 	<ul style="list-style-type: none"> - Technical assistance as per project budget. - Fellowships and exposure as per project budget. - Other Training as per project budget. Training to take place in Sierra Leone as much as possible.

¹⁵ The “Intended Outputs” are based on UNDP’s global guidance for the Strategic Results Framework for Microfinance within the Poverty Practice Area.

Total Budget	(Initial)	
Technical assistance:	US\$ 2,000,000	22.7%
Training fellowship:	US\$ 500,000	5.6%
Miscellaneous:	US\$ 500,000	5.6%
Grant ¹⁶ funding:	US\$ 3,000,000	34.1%
Loan ¹⁷ funding:	US\$ 2,800,000	31.8%
Total:	US\$ 8,800,000	100%

¹⁶ Use of grants will be in conformity with microfinance best practices as defined in “Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries”, Committee of Donor Agencies for Small Enterprise Development, and Donor’s Working Group on Financial Sector Development, October 1995 (page 4) that have been adopted by UNDP as policy (see Programming Manual, 6.4.6 Reference Center). Regarding Grants, the Guiding Principles state: “Appropriate Uses of Grants: 1) Institutional development; 2) Capitalization; 3) Operating Losses; and 4) Fixed Assets.” See the Guiding Principles for details. The Investment Committee will review and adjust its use of grants and loans, as necessary, to any updates that may become available during the course of the Programme.

¹⁷ Use of loans will be in conformity with microfinance best practices as defined in “Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries”, Committee of Donor Agencies for Small Enterprise Development, and Donor’s Working Group on Financial Sector Development, October 1995 (page 4) that have been adopted by UNDP as policy (see Programming Manual, 6.4.6 Reference Center). Regarding Loans, the Guiding Principles state: “Appropriate Uses of Loans: Donors support through loans is appropriate for lending-based institutions that meet performance standards. However, loan capital from local and commercial sources should be sought as early as possible, even at start-up. Care should be taken to avoid burdening young institutions with foreign exchange risk in loans denominated in foreign currency, unless adequate precautions are taken. Donors are also advised to be careful not to undermine savings mobilization efforts of savings-based institutions, such as savings and credit associations, by making loans available to them below the cost of mobilizing funds locally.”

Budget		UNDP Contribution					
Imple- menting Agency	BL	Description	2004	2005	2006	2007	TOTAL
UNCDF	11	SUM Backstopping	25,000	25,000	20,000	20,000	90,000
		Evaluation	0	0	40,000	0	40,000
UNCDF	15						
UNCDF	16	Mission Costs	24,000	24,000	18,000	18,000	84,000
UNDP	17	National Consultant1	18,000	19,000	20,000	21,000	78,000
UNCDF	20	Subcontracts	72,000	37,000	37,000	37,000	183,000
UNDP	31	Fellowships	100,000	75,000	75,000	63,198	313,198
UNDP	32	Other Training	110,000	100,000	75,000	75,000	360,000
UNDP	45	Equipment	90,000	0	8,952	0	98,952
UNCDF	52	Reporting	8,000	4,000	4,000	4,000	20,000
UNDP	53	Sundries	14,000	13,000	13,000	12,000	52,000
UNCDF	93	Implementation Fee	6,450	4,500	5,950	3,950	20,850
UNDP	71	Micro-Capital Grants	270,000	290,000	310,000	290,000	1,160,000
		GRAND TOTAL	\$737,450	\$591,500	\$626,902	\$544,148	\$2,500,000

Budget	UNCDF Contribution							
	Description	2004	2005	2006	2007	2008	2009	TOTAL
UNCDF	11 SUM Backstopping	20,000	20,000	20,000	20,000	20,000	7,095	107,095
UNCDF	11 Consultant	120,000	153,000	155,000	157,000	160,000	70,000	815,000
UNCDF	11 Consultant	70,000	122,000	125,000	54,048			371,048
UNCDF	15 Evaluation						40,000	40,000
UNCDF	16 Mission Costs	18,000	18,000	18,000	18,000	18,000	12,000	102,000
UNCDF	17 National Consultant1	0	0	0	0	22,000	0	22,000
UNCDF	17 National Consultant2	0	0	0	0	22,000	-	22,000
UNCDF	17 National Consultant3	0	0	0	0	22,000	-	22,000
UNCDF	20 Subcontracts	5,000	5,000	5,000	5,000	5,000	5,000	30,000
UNCDF	31 Fellowships	-	-	-	-	-	-	-
UNCDF	32 Training	0	0	0	0	0	0	0
UNCDF	45 Equipment	5,000	0	0	0	0	0	5,000
UNCDF	52 Reporting	5,000	2,000	2,000	2,000	2,000	2,000	15,000
UNCDF	53 Sundries	1,000	1,000	1,000	1,000	1,000	1,000	6,000
UNCDF	71 Capital	300,000	300,000	300,000	300,000	100,000	0	1,300,000
UNCDF	93.02 Programme Support Costs	27,200	31,050	31,300	27,852	18,600	6,855	142,857
	TOTAL	\$571,200	\$652,050	\$657,300	\$584,900	\$390,600	143,950	\$3,000,000

United Nations

Development Programme
Programme of the Government of the Republic of Sierra Leone
Programme Support Document

UNCDF PROJECT NUMBER: SIL/03/C01

PROJECT TITLE: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Source Of Fund (SOF): TRAC, Government, and others

ESTIMATED START DATE: April 2004

ESTIMATED END DATE: April 2009

STATEGIC AREAS OF SUPPORT: Development of
An Inclusive Sustainable Financial Sector

MANAGEMENT ARRANGEMENT: UNCDF Execution

UNITED NATIONS IMPLEMENTING AGENCY: UNCDF/SUM for some UNDP budget lines

Approved on behalf of:

Government: _____

Konah C. Koroma
Development Secretary

_____ Date

BoSL: _____

Dr. James Rogers
Governor

_____ Date

UNDP _____

Alan Doss
Resident Representative

_____ Date

UNCDF: _____

Normand Lauzon
Executive Secretary

_____ Date

Programme Financing

UNCDF: US\$3,000,000
(Including AOS)

Parallel Financing:
€uro3,000,000 KfW
UNDP 2,500,000

Annex 2

Draft Terms of Reference Microfinance Unit Bank of Sierra Leone

The microfinance unit in the National Bank of Sierra Leone will function as a permanent focal point and as coordinator of the development the microfinance sector and its integration into the financial system. The microfinance unit will:

- Support and build consensus on the development of an inclusive financial system;
- Establish a centralized databank on microfinance activities;
- Set standards to ensure transparency;
- Address constraints that hamper the development of an inclusive financial system;
- Draft and monitor policies and regulation in collaboration with major microfinance operators;
- Supervise and monitor regulated microfinance operators;

The Project will support the strengthening this unit in, among others, the following areas:

- staff capacity building,
- the establishment of a sector data base,
- sector studies (constraints and opportunities),
- advise policy makers and regulators,
- information dissemination (including translation),
- development of industry standards, transparency criteria, bench marks.

The project will also, indirectly support this unit by developing national capacity in support services to the sector (auditing, accounting, legal, IT).

The Project will also provide support, in collaboration with the unit, dissemination of information on best practices, joint research studies with local institutions (e.g informal sector, small business sector etc.), support to microfinance networks, training and exchange visits for key stakeholders, workshops and seminars. To the greatest extent possible, to ensure wide access, training will take place in Sierra Leone.

Terms of Reference: Investment Committee

1. Background

In line with the Government's Microfinance Policy to 'Coordinate activities in the micro-finance sector in order to avoid duplication and over-subscription' donors and private investors supporting microfinance institutions will be encouraged to join an Investment Committee.

2. Composition

The Bank of Sierra Leone (BoSL) will serve as (non-voting) Chair of the Investment Committee. Donor/Investors will agree to abide by microfinance best practices¹⁸ in joining the committee. Minimum contribution for Donor/Investors to become a voting member of the committee will initially be set at U.S.\$1,000,000. Donors who wish to use the mechanism of the investment committee, but not take a voting seat on the committee may do so through the cost-sharing mechanisms, as may donors with contributions below \$1,000,000. The International Technical Service Provider will serve as the Secretariat of the Board. Technical officers from the Ministry of Finance and the Ministry of Development and Economic Planning (MODEP) shall sit as observers to the Investment Committee. Their role as observers shall be limited to: 1) advising the committee if any potential investment is not in line with government policy, and 2) reporting back to their respective ministries on progress in implementing the government's policy. The technical officers will have received training in microfinance.

3. Rationale

In order to support the development of a competitive, sustainable inclusive financial sector, the Investment Committee will provide a framework where donors can:

- Receive business plans and funding proposals;
- Jointly review potential investments;
- Complement relative strengths and weaknesses (provision of only technical assistance, grants, loans or equity) in order to tailor investment packages to the institution.
- Utilize standard reporting and performance based contracts with MFIs;
- Review individual investments within the context of the Government's policy of building a pro-poor, sustainable financial sector;
- Jointly supervise the technical assistance provided to participating MFIs;
- Jointly carry out needed technical reviews, evaluations, audits, field monitoring visits, etc. within a commonly (scheduled) agreed time period;
- Jointly review progress in building the enabling environment for sustainable microfinance.

This arrangement will also minimize transaction costs to MFIs seeking funding, and the Technical Service Provider.

¹⁸ Best-practices in microfinance are reflected in the "Donor Guidelines for Selecting Financial Intermediaries", and CGAP Focus Notes, Technical Papers and other publications.

4. Criteria for Applications from MFIs

Proposals may be made from start-ups, institutions currently operating in the country, or those outside, wishing to start-up operations.

In line with the Government's microfinance policy, the criteria for selecting investments will include the following:

- Disciplined management;
- Transparency, with donors, government, clients and public having the right to know status;
- Reporting and accountability, with regular operational, financial and audit reports;
- Pricing, with MFIs free to set prices reflecting the prevailing market conditions and their internal costs;
- Delinquency control, capability for timely and full loan repayment;
- Appropriate techniques and products, a variety of collateral substitutes and repayment incentives can be used;
- Gender consideration, enabling the participation of women;
- Governance, sound structures suitable to the institutional type, and largely free from government and political interference.

In order to complement the assistance provided by SAPA to young, emerging MFIs, the minimum criteria for consideration by the committee will initially¹⁹ include:

- 500 active clients;
- In existence for at least one year;
- Microfinance as the sole focus of its services;
- Financial self-sufficiency as a stated goal within 5-7 years
- Plans for a major but realistic expansion of the client base

In addition to the criteria noted above, those institutions making proposals from outside to enter the Sierra Leonean market will provide background on their track record in other countries. This information will include standard outreach and performance, and financial reporting disaggregated by institution per country; and also includes the total funding received per institution to achieve those results (**see Annex 3b**). This information will assist the investment committee to make investment decisions on a cost-effective basis, and assess proposed targets in light of past achievements.

5. Technical Support for Preparing Business Plans, Proposal Review, and Funding Requirement Projections

The Investment Committee will be responsible for approving the Technical Service Providers (TSP) long-term and annual workplans, progress reports, and payments under the TSPs performance based contract. UNCDF/SUM will contract the TSP. The TSP's responsibilities will include (see **Annex 4** for full TOR):

- Assist indigenous institutions in preparing business plans;
- Carry out Institutional Appraisals,
- Provide technical review of funding proposals to Investment Committee;
- Secretariat to the Investment Committee.
- Annually, prepare multi-year projections estimating country demand and supply for microfinance services; including funding needs (loans, grants, TA, equity) of MFIs to close this gap. Prepare analysis of options for Investment Committee consideration to catalyze development of the sector and close the gap in a reasonable timeframe.

¹⁹ The Investment Committee will not review applications for start-ups until after its first meeting.

Based on funding needs, develop strategies to mobilize additional resources; or limit further funding placed under Investment Committee management.

6. Process for Reviewing Investment Proposals

The Investment Committee will meet at least twice a year in Sierra Leone. Participation shall be mandatory for at least one meeting per year, while participation in other meetings may be facilitated via telephone/TV-conferences. Funding proposals will be circulated six weeks in advance of meetings. The Secretariat (TSP) will prepare and circulate technical analysis of all proposals to all Investment Committee members at least four weeks in advance of meetings. The Secretariat (TSP) will consult in advance with donors/investors on potential interest in funding a proposal. For simplification, the goal will be that not more than three (3) signatories per contract with an MFI for a proposal under consideration. Funds placed by donors under UNCDF/SUM management shall be considered as one signatory.

Decisions will be made on a commercial basis, and not be subject to political or disbursement pressures. A funding decision will be taken by consensus. Donor/investors will discuss and vote on any proposal, with each voting member of the Investment Committee having one vote. Proposals not approved but receiving one or more 'yes' votes, can be revised and resubmitted. Proposals that are deemed to be a violation of the Government's microfinance policy will be so advised by the Government chair, and requested not to proceed without amendment. These overall arrangements are intended to strengthen the implementation of the Government's Microfinance Policy by ensuring donor coordination, and that weak investments do not undermine the sector.

7. Harmonization of Performance Based Agreements and Reporting:

Donor/Investors participating in the Investment Committee agree to utilize harmonized:

- 1) Performance based agreements, with key indicators (Outreach: number of active clients; Portfolio quality: PAR @30 days; Profitability/Sustainability: Adjusted Return on Assets AROA) for minimum performance standards; and
- 2) Reporting requirements, using standard terms and definitions as developed by the Consultative Group to Assist the Poor (CGAP).

8. Execution/Implementation Arrangements:

UNCDF/SUM will serve as executing agent for its own funds, and implementing agent for some UNDP budget lines. Other donors are encouraged to cost-share through UNCDF/SUM in order to 1) minimize disbursement pressure; 2) harmonize reporting; 3) reduce administrative costs; and 4) expedite payments and implementation.

The project will establish a forex, interest-bearing main account with sub-accounts for each MFI or programme component. The Technical Service Provider and CEO of each MFI supported will serve as co-signatories of the respective sub-accounts. Donor/Investors will ensure that either: 1] investments approved by the Investment Committee can be paid within two (2) weeks of approval; or 2] that a certain percentage of committed funds (i.e. concretely committed via contracts for specific projects) is kept in the main account. It will be replenished upon proof that the previous tranche has been adequately used. Donor funds will be expended on a pro-rata basis (calculated according to the percentage of funds accepted under management) based on the payments approved at each meeting. Arrangements will be made for external auditing of the use of funds on a yearly basis by an independent auditing firm who will report to the Investment Committee.

Donors will have the right to cease support to an MFI, programme component or the programme if deemed necessary (non-fulfilment of performance criteria, misappropriation of funds). The

decision should be discussed in the Investment Committee, or between the relevant donors in the case of support to a specific MFI.

If needed, the Investment Committee will review these Terms of Reference to adjust them to changing realities and to ensure smooth implementation arrangements.

9. Linkages to Government Policy Review:

The Bank of Sierra Leone will establish a working group on Microfinance Policy and Regulatory Framework that will include a representative of MFIs that have received funding via the Investment Committee. The working group will be lead by the microfinance unit of the BoSL. The working group will periodically review the policy, regulatory and supervisory framework for microfinance and identify changes needed for the sector to develop as an integrated part of the financial system. The working group will liaise with the Ministry of Development and Economic Planning (MODEP) to ensure complementarity with the NGO registration process for NGO-MFIs.

The Investment Committee will provide reporting on an annual basis to the Government's Microfinance Coordinating Committee (previously Microfinance Task Force on: 1) Investments made; 2) Results achieved by MFIs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. These reports will be posted on the UNCDF/SUM website with links to programme partners, based on request. UNCDF/SUM's webpage will list donor/investor contributions by value of funds pledged/disbursed (in U.S.\$).

The Microfinance Coordinating Committee, the Investment Committee, and MFIs supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of a pro-poor, sustainable financial sector. Recommendations emerging from these discussions will be referred to the respective government bodies with the mandate to review and implement, where possible. Subsequent annual reviews will examine progress achieved in removing constraints and seizing opportunities. The timing of these meetings will be organized to coincide with Investment Committee meetings when Donor/Investor representatives may be present in the country.

As the sector matures, the Investment Committee will review the need for continued grant, donor subsidy to the sector, and make decisions regarding whether additional funds should be placed under its management accordingly. The Ministry of Development and Planning will be advised of this recommendation for its consideration and communication to donors active in or considering funding microfinance in Sierra Leone. Once the sector is fully established on a commercial basis, the Government may wish to advise donors of pressing needs in other sectors (health, education) that require grant funding in order to achieve the Millennium Development Goals.

Information to be included in funding proposals:

Institution (name and locally registered institutional form):

Mission Statement:

Brief history:

Governance: Executive Director/CEO, Board or Directors, Names and background:

Organigram:

Ownership Structure: Current (Percent shares by stakeholder), and if change anticipated, dates and process for change

Systems and Manuals:

Audited Income Statements and balance sheets:

Start Date:

Current and Proposed Areas of Operation:

Products and Terms:

Current and Proposed Annual targets over period of requested support:

--Number of active clients:

--PAR @ 30 days:

--Value of Loans Outstanding:

--Average Loan Size:

--Adjusted return on assets (AROA):

Funding Requested (Grants and Soft-loans):

Proposed Budget allocation (by category and year):

Other Funding Available:

Grants (amount and source):

Commercial Loans (amount and source):

Equity (amount and source):

Annex 3 B:

Information for International MFIs submitting funding proposals to include in their submission:

For all currently active programmes:

Country:

Institution (name and locally registered institutional form):

Start Date:

Number of active clients:

PAR @ 30 days:

Value of Loans Outstanding:

Average Loan Size:

Adjusted return on assets (AROA):

Grants received (amount and source):

Soft-loans (amount and source):

Commercial Loans (amount and source):

Equity (amount and source):

**Terms of Reference
International Technical Service Provider (TSP)
Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone**

Annex 4

Background:

At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US\$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US\$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system. KfW, UNCDF/SUM and UNDP plan to launch an initial U.S.\$8.8 million, programme to support the development of the sector. Two (U.S.\$2M) million of this amount would be available to cover costs related to providing technical assistance.

Detailed Terms of Reference:

Expected Results:

Technical Service Providers (TSPs) will have overall responsibility for managing the programme of assistance to ensure that the results specified in Programme document are produced.

These results include:

- Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment. From a baseline of 13,000 active clients, increase to 93,000 active clients by end of 2008.
- Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable inclusive financial sector.
- A professional microfinance unit has been established in the Bank of Sierra Leone (BoSL) to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.
- Sound microfinance principles have been disseminated and are widely accepted and adopted.

TSPs will accomplish these results through a range of the following activities:

Work Planning and Managing Technical Assistance Team:

1. Develop a five year and detailed annual workplans for Investment Committee approval. The workplan should cover all areas noted below, and clearly define the responsibilities of international, national staff and all proposed sub-contracting arrangements;
2. Identify and select international and national staff, and draft necessary terms of reference. The national staff will be an integral partner in the provision of technical services;

MFI identification, appraisal, business plan preparation, and investment proposals:

3. Identify potential microfinance institutions (MFIs) for investment, based on capacities and potential to providing microfinance services in an efficient and financially viable manner;
4. Assist MFIs to develop solid business plans that could serve as the basis for programme investment, and identify an appropriate blend of grants, loans, equity and technical assistance for MFIs to meet performance targets;
5. In the period prior to the first Investment Committee meeting, propose to UNCDF/SUM micro-capital grants (\$10,000 to \$150,000) for MFIs that the TSP would propose for investment, and who need interim funding prior to Investment Committee review and approval.

Serve as Secretariat to the Investment Committee:

6. Serve as secretariat to Investment Committee, ensuring all required documentation is available to facilitate decision-making, including performance-based agreements with MFIs.
7. Liaise with Investment Committee members to determine interest in funding specific proposals;
8. Propose subsequent tranches from the Investment Committee for participating organizations that meet performance goals;
9. Annually, prepare multi-year projections estimating country demand and supply for microfinance services; including funding needs (loans, grants, technical assistance, equity) of MFIs to close this gap. Prepare analysis of options for Investment Committee consideration to catalyze development of the sector and close the gap in a reasonable timeframe. Based on funding needs, develop strategies to mobilize additional resources; or limit further funding placed under Investment Committee management.

Tailored Technical Assistance to MFIs Selected for Investment:

10. Develop and provide, in consultation with each participating organization, a tailored training programme, and technical assistance plan;
11. Ensure MFIs have a MIS that can produce on-time information needed for MFI management, as well as meet programme reporting requirements. TSPs are required to verify participating MFIs quarterly reports to the Investment Committee.
12. Advise on the strengthening of the board of directors of MFIs, and options for institutional form/legal structure;
13. Organize exchange and exposure visits between participating MFIs and lead MFIs in other countries.

Technical Advice to Bank of Sierra Leone (BoSL):

14. Assess needs and identify in consultation with BoSL staff a knowledge building agenda, including exposure visits to other Central Banks with potential model frameworks for regulation and supervision of microfinance.
15. Serve as a technical advisor to the Bank of Sierra Leone (Central Bank) in developing the supervisory and regulatory framework for microfinance.

16. Carry out studies of potential constraints that could hinder the development of an inclusive financial sector, with microfinance as an integral part of the financial system. Ensure policy actions required are clearly identified for Government of Sierra Leone review and action, as needed. Monitor implementation of follow-up actions.
17. Support development of supportive infrastructure (audit, credit reference bureau).

Liaison, Dissemination of Best Practices, Reporting and Resource Mobilization:

18. Assist the Ministry of Development and Economic Planning (MODEP) in establishing a registration and reporting process for non-regulated NGO-MFIs.
19. Liaise with all donors/investors active in Sierra Leone.
20. Organize general trainings to disseminate information on best-practice microfinance, in collaboration with CGAP where possible.
21. Study potential linkages between financial sector institutions.
22. Liaise with SAPA and other actors in microfinance;
23. Prepare Annual Reporting on results achieved for the Government's Microfinance Coordinating Committee and liaise with the Committee on relevant issues.

Programme Administration:

24. Establish a local dollar, interest bearing account with sub-accounts for each MFI approved for investment. Serve as co-signatory to each sub-account. Advise investment committee when replenishment of account is required to meet planned and approved expenditures.
25. Facilitate tendering for procurement of goods or services of significant value.
26. Facilitate annual external audit of programme resources by TSP and MFIs, and annual audit of MFIs (balance sheets, income statements).

Annex 5

Draft Terms of Reference Microfinance Coordinating Committee (MCC)

- To guide and oversee further development of the policy and its implementation;
- To ensure that stakeholder's carryout their roles and responsibilities as outlined in the policy;
- To provide technical advice to Government on microfinance;
- To undertake research on microfinance related issues, especially on constraints to the sector's development, in close collaboration with the University of Sierra Leone and other agencies or research institutions;
- Annually review progress reports of the Programme for Development of a Sustainable Pro-Poor Financial Sector, together with members of programme's Investment Committee, and participating MFIs;
- Identify constraints and seize opportunities to support the development of an inclusive, sustainable financial sector. Recommendations will be referred to the respective bodies with the mandate to review and implement;
- Promote transparency of all donor programmes and microfinance institutions. The microfinance unit's of both the Bank of Sierra Leone and MODEP will report to the NMCC based on the information received from microfinance providers on a yearly basis. The Committee will publicize its findings on a regular basis;
- To perform any other task that may be assigned to the Committee.

Annex 6

Draft TOR Microfinance Unit within the Ministry of Development and Planning (MODEP):

- To register, monitor and annually review for renewal all NGO MFI's operating in Sierra Leone;
- To ensure that all NGO MFIs operate in accordance with the National Microfinance Policy;
- To sensitise stakeholders and the nations on the National Microfinance Policy;
- To guide potential MFIs on the operations of the microfinance industry;
- To mobilize resources and encourage potential donors or investors to join the Government chaired Investment Committee of the Programme for Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone;
- To inform the Government on the performance of the microfinance industry;
- To advise the Government on any aspects of the policy that require modification as the industry develops;
- To monitor geographical distribution of NGO MFIs, and in collaboration with the Bank of Sierra Leone (BoSL), annually map the distribution of financial services in the country;
- To provide NGO MFIs information on application procedures for the Programme for Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone;
- To serve as Secretariat to the Microfinance Coordinating Committee (see Annex 5);
- To facilitate the development of capacity required for the further enhancement of the industry in both the public and private sector.