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GRANT NUMBER H739- SL

Financing Agreement

(Decentralized Service Delivery Program II Project)

between

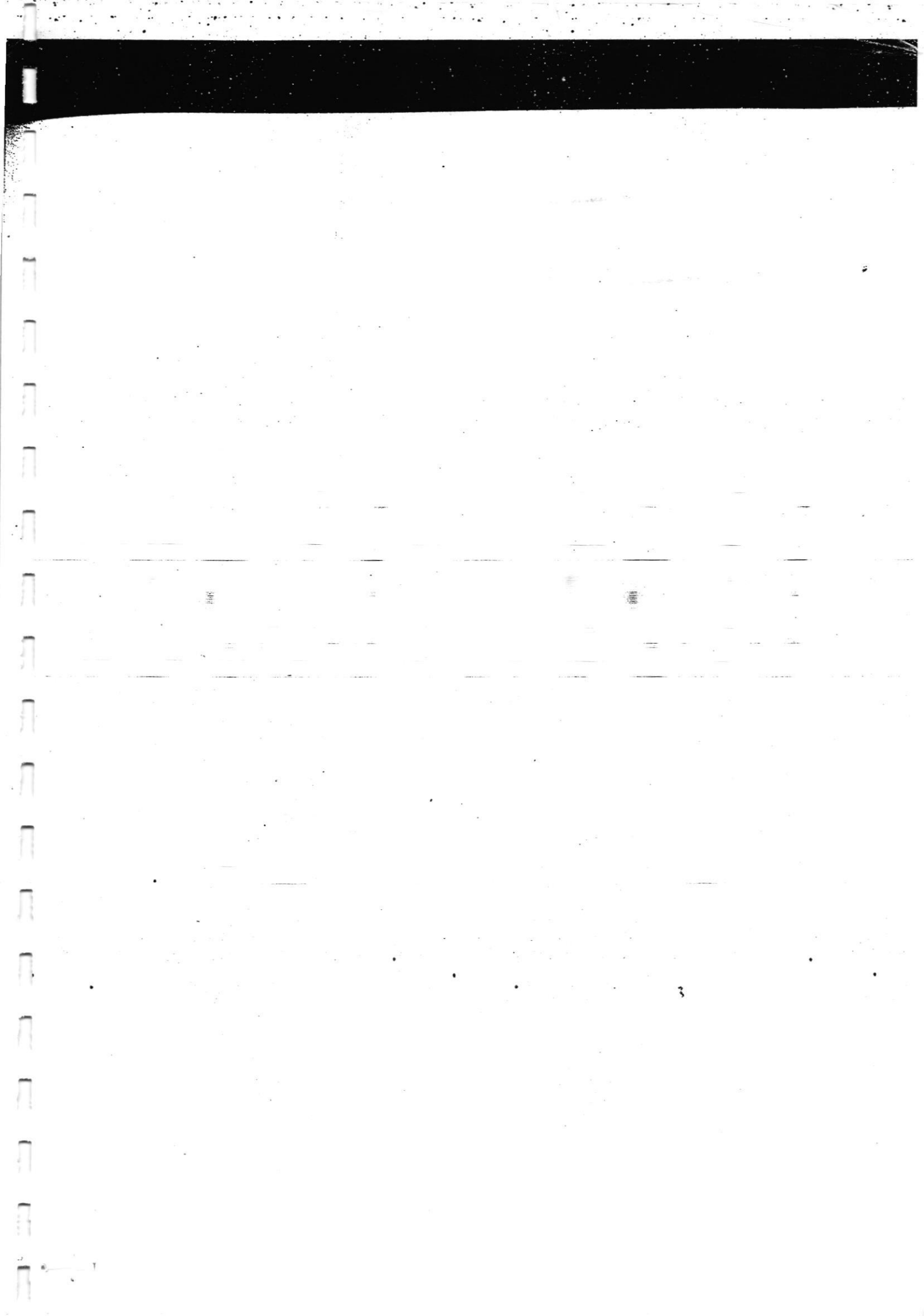
REPUBLIC OF SIERRA LEONE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 14, 2012

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FINANCING AGREEMENT

AGREEMENT dated *February 14*, 2012, entered into between REPUBLIC OF SIERRA LEONE ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.
- 1.03. Unless the context requires otherwise, references in this Agreement to Decentralization Secretariat (DecSec) shall be construed as references to DecSec or, upon its establishment, the decentralization unit in MLGRD.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to sixteen million seven hundred thousand Special Drawing Rights (SDR 16,700,000) ("Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are March 15 and September 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project, through MoFED, MLGRD and Local Councils, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES

- 4.01. The Additional Events of Suspension consist of the following, namely, that:
 - (a) as a result of events which have occurred after the date of this Agreement, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out; and
 - (b) in the opinion of the Association, the Local Government Act and related instruments (including the Statutory Instrument 2004) has substantially changed from that prevailing as of the date of this Agreement so as to materially and adversely affect the ability of the Recipient or of the Local Council(s) or MDA(s) (or such other entity or entities) to perform any of its obligations arising under or entered into pursuant to this Agreement, or to achieve the objectives of the Project.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Recipient has prepared and approved, in form and substance acceptable to the Association, a time bound action plan to integrate the Decentralization Secretariat into the MLGRD; and
 - (b) The Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its minister responsible for finance.

- 6.02. The Recipient's Address is:

Ministry of Finance and Economic Development
Treasury Building
George Street
Freetown, Sierra Leone

Facsimile: 232 22 229 060

- 6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Washington D.C. USA, as of the day
and year first above written.

REPUBLIC OF SIERRA LEONE

By 

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By 

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) strengthen the Recipient's capacity to manage decentralized services; (b) improve the availability and predictability of funding for Local Councils; and (c) strengthen the Recipient's intergovernmental fiscal transfer system.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part 1. Grants to Local Councils (LC Grants)

Provision of LC Grants to eligible Local Councils (LCs) for carrying out specific development activities (Subprojects) in the education; health and sanitation; rural water; solid waste management; and social assistance service sectors, as elaborated in the respective LC annual work plans and budgets.

Part 2. Capacity Development and Technical Assistance to Strengthen LCs and MDAs Capacity

- (a) Provision of Capacity Development Grants to LCs and MDAs for carrying out specific activities designed to enhance the capacity of such entities to carry out their responsibilities (Subprojects not covered under Part 1 of the Project), as elaborated in the respective LC or MDA capacity development plan.
- (b) Carrying out a program of training to enhance the capacity of LCs to perform their core functions including: (a) procurement; (b) financial management; (c) safeguards; (d) monitoring; (e) general administration; and (f) planning, as elaborated in the Consolidated Project Annual Work Plan and Budget.
- (c) Strengthening the management, technical and institutional capacities of ward committees for mediating between communities and LCs, including planning, budgeting, oversight, monitoring and evaluation and establishing feedback mechanisms between said ward committees and LCs.
- (d) Strengthening the institutional and technical capacities of the Local Government Finance Department, the Decentralization Secretariat and the MLGRD, all through provision of technical advisory services, training, operating costs and acquisition of goods.

Part 3. Results and Social Accountability

Carrying out a program of activities to improve local governance and service delivery by LCs as well as social accountability mechanisms between LCs and citizens, including citizen involvement in local governance, in particular:

- (a) Supporting annual implementation of the comprehensive local government performance assessment system to assess and monitor capacity development in LCs;
- (b) Supporting implementation of the integrated national public services survey (consisting of the national public services survey; the peripheral health utility survey; and the service delivery perceptions survey);
- (c) Supporting partnerships between civil society organizations and LCs, as elaborated in the Consolidated Project Annual Work Plan and Budget;
- (d) Piloting the use of community scorecards in priority sectors;
- (e) Piloting the use of non-financial incentives for top performing service providers at Locality level; and
- (f) Supporting LCs' implementation of results-based approaches with all service providers including monitoring of results at the Locality level.

Part 4. Project Management

Strengthening the institutional and technical capacity of the IPAU for Project implementation and oversight including procurement and financial management, monitoring and evaluation and reporting, all through provision technical advisory services, training, operating costs and acquisition of goods.

SCHEDULE 2

Project Execution

Section I. Institutional and Implementation Arrangements

A. Institutional Arrangements

1. Ministry of Finance and Economic Development (MoFED)

- (a) The Recipient shall designate, at all times during the implementation of the Project, the MoFED to be responsible for prompt and efficient oversight and coordination of Project activities, and shall cause to be taken all actions including the provision of funding, personnel and other resources to enable said MoFED to implement the Project.
- (b) Without limitation to the provisions of sub-paragraph (a) of this paragraph 1, the Recipient shall maintain, at all times during the implementation of the Project, a Local Government Finance Department within MoFED (LGFD), with functions, staffing and resources satisfactory to the Association, to be responsible for day to day administration of LC Grants under Part 1 of the Project. The LGFD shall carry out its functions in coordination with the DecSec and IPAU, in accordance with the Operational Manual.
- (c) Without limitation to the provisions of sub-paragraphs (a) and (b) of this paragraph 1, the Recipient shall maintain, at all times during the implementation of the Project, an Integrated Project Administration Unit within MoFED (IPAU), with functions, staffing and resources satisfactory to the Association for the purpose of ensuring prompt and efficient overall coordination, implementation and communication of Project activities and results including being responsible for: (i) fiduciary elements of Project implementation (financial management and procurement); (ii) ensuring compliance with environmental and social safeguards; (iii) preparing the Consolidated Project Annual Work Plan and Budget and ensuring its implementation; (iv) consolidating periodic progress reports; (v) monitoring and evaluating Project activities; (vi) liaising with other implementing institutions on issues related to Project implementation; and (vii) providing other administrative support to the LGFD and the DecSec, all in accordance with the Operational Manual.

2. **Ministry of Local Government and Rural Development (MLGRD)**

- (a) Without limitation to the provisions of paragraph 1 of this Section I.A, the Recipient shall designate, at all times during the implementation of the Project, the MLGRD to be responsible for prompt and efficient oversight and coordination of activities under Parts 2 and 3 of the Project, and shall cause to be taken all actions including the provision of funding, personnel and other resources to enable said MLGRD to implement activities under said Parts of the Project.
- (b) Without limitation to the provisions of sub-paragraph (a) of this paragraph 2, the Recipient shall maintain, at all times during the implementation of the Project, a Decentralization Secretariat (the DecSec) within MLGRD, with functions, staffing and resources satisfactory to the Association, to be responsible for, *inter alia*, administration of Capacity Development Grants under Part 2.1 of the Project. The DecSec, working in coordination with said MLGRD, shall carry out its functions in coordination with the LGFD and IPAU, all in accordance with the Operational Manual.

3. **Local Councils (LCs)**

Without limitation to the provisions of paragraphs 1 and 2 of this Section I.A, the Recipient shall designate, at all times during the implementation of the Project, the respective LCs established in the respective Localities, to be responsible for, *inter alia*, implementing Subprojects under Parts 1 and 2 (a) of the Project, all in accordance with the Operational Manual. The Recipient shall cause to be taken all actions including the provision of funding, personnel and other resources to enable said LCs to implement said Subprojects.

4. **Ministries, Departments and Agencies (MDAs)**

Without limitation to the provisions of paragraphs 1, 2 and 3 of this Section I.A, the Recipient shall designate, at all times during the implementation of the Project, the respective MDAs established in the respective priority sectors (education, health and sanitation, rural water, solid waste management and social assistance service), to be responsible for implementing Subprojects under Part 2 (a) of the Project, all in accordance with the Operational Manual. The Recipient shall cause to be taken all actions including the provision of funding, personnel and other resources to enable said MDAs to implement said Subprojects.

B. Implementation Arrangements; Operational Manual

1. The Recipient shall ensure that the Project is carried out in accordance with the arrangements, procedures and guidelines set out in the Operational Manual, which shall include provisions on the following matters: (a) capacity building activities for sustained achievement of the Project's objectives; (b) financial management and disbursement; (c) procurement; (d) institutional administration, coordination and day-to-day execution of Project activities; (e) monitoring and evaluation, reporting, information, education and communication of Project activities; (f) guidelines for carrying out Subprojects under Parts 1 and 2 (a) of the Project including the eligibility criteria and detailed procedures for the selection, approval and implementation of said Subprojects; and (g) such other technical and organizational arrangements and procedures as shall be required for the Project.
2. In case of any conflict between the arrangements and procedures set out in the Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail and, except as the Association shall otherwise agree, the Recipient shall not amend, abrogate or waive any provision of the Operational Manual.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Consolidated Project Annual Work Plan and Budget

1. The Recipient shall, through MoFED, prepare and furnish to the Association for its approval, not later than November 30 of each year during the implementation of the Project, a proposed consolidated Project annual work plan and budget containing all eligible activities under the Project and expenditures planned for the following Fiscal Year, and specifying the source or sources of financing for all eligible expenditures and the percentage of financing of such expenditures from each such source.
2. Each such consolidated Project annual work plan and budget shall specify among the activities under Parts 2 (b), 2 (c), 3 and 4 of the Project, any training activities that may be required under said Parts, including: (a) the type of training; (b) the purpose of the training; (c) the personnel to be trained; (d) the institution which will conduct the training; (e) the location and duration of the training; and (f) the cost of the training.

3. The Recipient shall afford the Association a reasonable opportunity to exchange views with the Recipient on each such proposed consolidated Project annual work plan and budget, and thereafter to implement the Project or cause it to be implemented during such following Fiscal Year with due diligence in accordance with such consolidated Project annual work plan and budget, as shall have been approved by the Association ("Consolidated Project Annual Work Plan and Budget").
4. The Recipient shall not make or allow to be made any change to the approved Consolidated Project Annual Work Plan and Budget without prior approval in writing by the Association.

E. Safeguard Instruments

1. The Recipient shall ensure that the Project is carried out in accordance with the Safeguard Instruments.
2. The Recipient shall ensure that all measures required for carrying out the recommendations of said Safeguard Instruments are taken in a timely manner.
3. Without limitation to its other reporting obligations under this agreement and under Section 4.08 of the General Conditions, the Recipient shall include in the Project Reports referred to in Section II.A of this Schedule, adequate information on the implementation of said Safeguard Instruments, giving details of: (a) measures taken in furtherance of said Safeguard Instruments; (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of said Safeguard Instruments; and (c) remedial measures taken or required to be taken to address such conditions and to ensure the continued efficient and effective implementation of said Safeguard Instruments.

F. Subprojects; LC Grants and Capacity Development Grants

1. General

The Recipient shall, through MoFED and MLGRD, as the case may be: (a) on the basis of an approved annual work plan and budget submitted by a LC, review and approve Subproject proposals, and monitor and supervise Subprojects under Part 1 of the Project, and administer the LC Grants in accordance with the guidelines and procedures set forth in paragraphs 2 and 3 below, and elaborated further in the Operational Manual; and (b) on the basis of an approved capacity development plan submitted by a LC or MDA, respectively, review and approve Subproject proposals, and monitor and supervise Subprojects under Part 2 (a) of the Project, and administer the Capacity Development Grants in accordance with

the guidelines and procedures set forth in paragraphs 2 and 3 below, and elaborated further in the Operational Manual.

2. **Eligibility Criteria for Subprojects**

(a) **LC Grant.** Each proposed Subproject contained in an approved LC's annual work plan and budget shall be eligible for financing upon MoFED's determination, on the basis of an approval process conducted in accordance with this paragraph and, as specifically set forth in the Operational Manual, that the proposed Subproject consists of devolved activities under the Local Government Act and its related Statutory Instrument 2004, and satisfies the following conditions. An LC Grant shall be made to a LC on a non-reimbursable grant basis.

- (i) the Subproject shall cover all activities of a LC to be carried out during the period of one Fiscal Year in the eligible sectors, as further described in the approved annual work plan and budget of such LC;
- (ii) the Subproject shall be appraised on the basis of an environmental and social assessment and other guidelines acceptable to the Association (and be accompanied by an EMP or RAP, respectively, if required pursuant to the ESMF or RPF, respectively);
- (iii) the Subproject shall be approved by the LC and MoFED, respectively, in accordance with criteria set forth in the Operational Manual; and
- (iv) the Subproject, EMP and RAP, if any, shall be approved by the Recipient and the Association, unless with respect to the Association's approval, the Association has notified the Recipient in writing that its prior approval is not required.

(b) **Capacity Development Grant.** Each proposed Subproject shall be eligible for financing under a Capacity Development Grant upon MLGRD's determination, on the basis of an approval process conducted in accordance with this paragraph, and specifically set forth in the Operational Manual, that the proposed Subproject consists of capacity building activities not included in Parts 2 (b), 2 (c), 3 and 4 of the Project, and satisfies the following conditions. A Capacity Development Grant shall be made to a LC or MDA on a non-reimbursable grant basis.

- (i) the Subproject shall address specific capacity development needs of the LC or MDA that are not addressed by an LC Grant;
- (ii) the Subproject shall be included in the approved capacity development plan of such LC or sector plan of such MDA (as the case may be);

- (iii) the Subproject shall be approved by the LC or MDA, and MLGRD, respectively, in accordance with criteria set forth in the Operational Manual; and
- (iv) the Subproject shall be approved by the Recipient and the Association, unless with respect to the Association's approval, the Association has notified the Recipient in writing that its prior approval is not required.

3. Subprojects; Subsidiary Agreements

- (a) To facilitate the carrying out of each Subproject, the Recipient shall make: (i) each LC Grant, through MoFED (LGFD), to a LC; and (ii) each Capacity Development Grant, through MLGRD (DecSec), to a LC or MDA, in all cases under Subsidiary Agreements, in form and substance satisfactory to the Association, which shall include the following terms and conditions, and such additional terms and conditions, as the same may be elaborated upon in the Operational Manual:
 - A. The LC (or MDA) shall undertake: (1) to carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, including in accordance with the provisions of the Anti-Corruption Guidelines; (2) provide, promptly as needed the resources required for these purposes; and (3) maintain adequate records.
 - B. The LC (or MDA) shall ensure that the goods, works, non-consulting services and services to be financed out of the proceeds of the LC Grant (or Capacity Development Grant) shall be procured in accordance with the provisions of this Agreement and used exclusively in carrying out the Subproject.
 - C. The LC (or MDA) shall maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Subproject and the achievement of its objectives.
 - D. The LC (or MDA) shall: (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Subproject; and (2) for each fiscal year of the Recipient, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and furnish the statements as so audited to

- the Recipient (and the Association, if required), not later than six months after the end of such fiscal year.
- E. The Recipient shall have the right to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, and plants included in the Subproject, the operations thereof, and any relevant records and documents.
 - F. The LC (or MDA) shall prepare and furnish to the Recipient and the Association all such information as the Association shall reasonably request relating to the implementation of the Subproject, and the performance by the LC (or MDA) of its obligations under its Subsidiary Agreement.
 - G. The Recipient may suspend or terminate the right of the LC (or MDA) to use the proceeds of the LC Grant (or Capacity Development Grant) upon failure by the LC (or MDA) to perform its obligations under its Subsidiary Agreement with the Recipient.
 - H. The LC (or MDA) shall promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of its Subproject, or the performance by it of its obligations under its Subsidiary Agreement with the Recipient.
- (b) The Recipient shall exercise its rights under its Subsidiary Agreement with each LC (or MDA) in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate or waive any Subsidiary Agreement with any LC (or MDA), or any provision thereof.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

2. The Recipient shall:-

- (i) Not later than twenty-four (24) months after the Effective Date, undertake in conjunction with the Association, and the implementing institutions a comprehensive mid-term review of the Project and Program during which it shall exchange views with the Association and implementing institutions generally on all matters relating to the progress of the Project and Program, the performance by the Recipient of its obligations under this Agreement and the performance by the implementing institutions, having regard to the indicators referred to in paragraph 1 immediately above.
- (ii) Not later than one month prior to the mid-term review, furnish to the Association for comments, a report, in such detail as the Association shall reasonably request, on the progress of the Project and Program, and giving details of the various matters to be discussed at such review.
- (iii) Following the mid-term review, act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may be required in furtherance of the objectives of the Project or otherwise agreed upon between the parties.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

C. **Specific Financial Management Covenant**

The Recipient shall, not later than four (4) months after the Effective Date, recruit an independent external auditor, in accordance with Section III of this Schedule 2.

Section III. Procurement

A. **General**

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods of procurement, other than International Competitive Bidding, may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used: (a) National Competitive Bidding (*subject to the additional procedures in paragraph 3 below*); (b) Shopping; (c) Direct Contracting; (d) Procurement from United Nations Office for Project Services (UNOPS); and (e) Community Participation procedures which have been found acceptable to the Association.