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**CREDIT NUMBER 4520-SL**

# **Financing Agreement**

**(Second Governance Reform and Growth Credit)**

**between**

**REPUBLIC OF SIERRA LEONE**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated October 9, 2008**

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**FINANCING AGREEMENT**

Agreement dated October 9, 2008, entered into between REPUBLIC OF SIERRA LEONE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework.

The Recipient and the Association therefore 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 the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**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 credit in an amount equivalent to six million four hundred thousand Special Drawing Rights (SDR 6,400,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.06. The Payment Currency is Dollars.

**ARTICLE III—PROGRAM**

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

**ARTICLE IV—REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension shall be that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

**ARTICLE V—TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days 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:

Minister of Finance and Economic Development  
 Ministry of Finance and Economic Development  
 Ministerial Building  
 George Street  
 Freetown  
 Sierra Leone

Cable address:  
 MINFIN, Freetown

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED in the District of Columbia, United States of America, as of the day and year first above written.

**REPUBLIC OF SIERRA LEONE**

**By: /s/ David Carew**

**Authorized Representative**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By: /s/ Ishac Diwan**

**Authorized Representative**

**SCHEDULE 1****Program Actions; Availability of Financing Proceeds****Section I. Actions Taken Under the Program**

The actions taken by the Recipient under the Program include the following:

The Recipient has:

1. adopted an acceptable plan that minimizes adverse fiscal and monetary consequences for converting non-interest bearing securities held by the Bank of Sierra Leone to interest bearing assets, in accordance with the provisions of paragraph 8 of the Letter of Development Policy;
2. (a) ensured that the ratio of actual to budgeted spending on priorities related to the Heavily Indebted Poor Country Initiative and the Recipient's Poverty Reduction Strategy in the second half of 2007 is not smaller than the ratio of actual to budgeted expenditures for all other discretionary primary expenditures, in accordance with the provisions of paragraph 32 of the Letter of Development Policy; and (b) ensured that any spending from miscellaneous budget head 501, or any other budget head for unallocated expenditures, will be made in full conformity with sections 25(4) and 25(5) of the Government Budgeting and Accountability Act (2005) starting from January 2008 and verified on a quarterly basis, in accordance with the provisions of paragraph 30 of the Letter of Development Policy;
3. adopted and made satisfactory progress in enforcing new regulations for the implementation of the Government Budgeting and Accountability Act (2005), in accordance with the provisions of paragraph 30 of the Letter of Development Policy;
4. met the following benchmarks: (a) at least 23 ministries, departments, or agencies have produced procurement plans for 2008 for approval by the Recipient's Ministry of Finance and Economic Development or other appropriate statutory bodies; and (b) for at least 12 entities with approved procurement plans for 2007, the share of total procurement that was conducted through open competition is at least 25 percent of the total of procurements above the national small purchase threshold, whether the share is defined in terms of number of procurements or value of procurements, all in accordance with the provisions of paragraph 38 of the Letter of Development Policy;
5. replaced the Recipient's Establishment Secretary's Office with a human resource management office, in accordance with the provisions of paragraph 26 of the Letter of Development Policy;
6. ensured that the budgetary funds actually transferred to local councils in the first three quarters of 2007, expressed as a share of total discretionary non-salary, non-interest recurrent spending, is within 4 percentage points of the budgeted share for the first three quarters of 2007, in accordance with the provisions of paragraph 25 of the Letter of Development Policy;

7. approved at Cabinet level a satisfactory package of financial sector legislation including the Companies Act and the Payment Systems Act, in accordance with the provisions of paragraph 43 of the Letter of Development Policy.
8. continued to advance the planned expansion of the cadastral system for the administration of mineral licensing by setting up new offices for installation of the cadastral system in the remaining key mining areas centered around the towns of Kenema and Bo, in accordance with the provisions of paragraph 48 of the Letter of Development Policy; and
9. submitted to Parliament the General Law (Business Start-up) (Amendment) Act, 2007 and the Registration of Business Act, 2007, in accordance with the provisions of paragraph 42 of the Letter of Development Policy.

**Section II. Availability of Financing Proceeds**

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	6,400,000
TOTAL AMOUNT	6,400,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
  1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
  2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- D. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is June 30, 2009.

**SCHEDULE 2****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 15 and August 15:	
commencing February 15, 2019 to and including August 15, 2028	<b>1%</b>
commencing February 15, 2029 to and including August 15, 2048	<b>2%</b>

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.



## APPENDIX

### Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
2. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
  3. “Letter of Development Policy” means the letter from the Recipient to the Association dated August 26, 2008, declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
  4. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the Letter of Development Policy.
  5. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

*“Section 4.06. Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

*Section 4.07. Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Financing Agreement and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.