Chapter 5

ACCESS TO FINANCE: THE ROLE OF MICROFINANCE

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5.1 Statement of the Problem

Sierra Leone, a land of 71,740 km^2, is home to a population of 6.3 million, which grows at a rate of 3.6% per year and a population density of 76 inhabitants/km^2. The gross domestic product (GDP) per capita (2009) is among the lowest in Africa at US$322 (see Allen *et al.* 2010).

With three democratic elections behind it since the 1991–2001 rebel war, Sierra Leone has exited a post-conflict situation and now faces development challenges. Sierra Leone remains at the bottom of United Nations Development Programme's (UNDP) Human Development Index, with 70% of the population living below the national poverty line of US$1.25 per day, a life expectancy of 42 years of age and literacy levels of 35%. It ranks 153 out of 156 on the Gender Development Index, with women's literacy rates at just over half that of men. Under the Global Hunger Index, Sierra Leone is classified as 'extremely alarming' (Government of Sierra Leone *et al.* 2010).

One way to help redress these rather dire statistics may be through increased access to finance for improved economic growth.

The importance of financial access was also strongly underlined at the review of the Millennium Development Goals, as a key accelerator to meet the UN human development objectives and particularly the alleviation of poverty.

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Here, there was a general agreement that bringing relevant financial services to people in need in emerging and developing countries can be a highly effective tool to lift people out of poverty, financially empower them and offer them genuine opportunities for personal development and education.

Odell (2010) refers to other studies by, among others, Karlan and Zinman (2010) and Banerjee *et al.*[1] which found little evidence to support microfinance having a significant impact on poverty reduction. However, she also reports that recent empirical evidence using household data indicates that access to basic financial services such as saving, money transfers and credit can make a substantial positive difference in poor people's lives and refers to World Bank researchers Bruhn and Love (2009),[2] as well as Kaboski and Townsend (2005).[3] and Dupas and Robinson (2009). For firms, especially small and medium enterprises (SMEs), lack of access to finance is often the main obstacle to *growth* (Schiffer and Weder 2001).

Access to finance (A2F) is therefore essential for economic development and individual social empowerment. Alexandre *et al.* (2010) report that there is growing interest in the financial access agenda and that one driver has been the mounting empirical evidence that increasing financial access is both pro-growth and pro-poor, that is, it promotes growth with less inequality.[4]

5.2 Research Objectives

What therefore is the level of financial services access in Sierra Leone, what are the major tools that have contributed to whatever level Sierra Leone has achieved in financial access and how effective have tools been in facilitating access to finance? For a long time microfinance has been considered *the* major tool for achieving substantial levels of financial access primarily because the majority of the population who are financially excluded are the low-income group for whom microfinance is the most suitable form of financial access.

[1] At the macro-level, Beck *et al.* (2007) find that 30% of the cross-country variation in poverty rates can be attributed to variations in financial depth (private credit/GDP), while Levine (2005) finds a strong link between financial depth and economic growth. These findings are offset somewhat by Banerjee *et al.* (2009) and Karlan and Zinman (2009) which find little to no short-term impact from providing households access to micro-credit in India and the Philippines, respectively.

[2] Their research found that opening of branches in Banco Azteca across neighbourhoods led to an increase in informal business ownership and incomes for residents of municipalities where a branch was opened.

[3] Their research in Thailand found that MFIs, especially those targeted at women promoted asset growth, consumption smoothing and occupational mobility and reduced dependence on moneylenders

[4] Dupas and Robinson (2009) find that after six months, access to a savings account led to a 39% increase in productive investment and a 13% increase in food expenditure among women micro-entrepreneurs in Kenya.

While there are now other new tools for increased A2F such as mobile money payments, microfinance remains the most tried and tested tool.

However, even though microfinance is an acknowledged effective tool for mitigating several social and economical problems of the rural mass, there is still a huge gap to bridge between the targeted objectives and reality. What role, therefore, has microfinance played in increasing financial access in Sierra Leone? What have been its successes and failures in this role? Indeed, should microfinance continue to play the pre-eminent role in advancing access to finance in Sierra Leone? This study will attempt to highlight the role of microfinance in financial access. This will include how providers of microfinance services are functioning in Sierra Leone especially towards alleviation of poverty and enhancing business development. It is hoped that these findings will be helpful to policymakers in better decision-making.

It should be noted that this paper is about access to *financial services* which, we argue, is different from *access to finance*. Generally, 'finance' includes debt, equity and guarantees i.e. where the term 'finance' is limited to liabilities. This is different from 'financial services' which is much broader and encompasses both liabilities and assets such as savings, deposits and insurance. For the purposes of this paper however, access to finance means access to financial services, as described above.

5.3 Access to Financial Services: An Overview

5.3.1 Definitions of Access to Finance

The UK Department for International Development (DFID) is one of the several development partners for whom access to finance is high on the agenda and it gives as one of the headline results of its private sector approach: help more than *50 million people* to access savings, credit and insurance (DFID 2011). Access to finance is synonymous with what is now popularly referred to as financial inclusion and has gained particular prominence in recent years and includes but is not limited to microfinance alone. Full financial inclusion as described by Accion's Centre for financial inclusion is (see Rhyne 2010):

> a state in which all people have access to a full suite of quality financial services, provided at affordable prices in a convenient manner and with dignity for the clients. Services are delivered by a range of providers, most of them private and reach everyone who can use them, including the disabled, poor, rural and other excluded populations.[5]

Financial inclusion is achieved when consumers can *access* and *sustainably use* financial services that are affordable and appropriate to their needs. The

[5] One would also add to the ACCION definition above, the word 'available' to read: *access to a full suite of available quality financial services*. This is added here because not all types of financial services are available in all countries. In Sierra Leone for example even the most financially included person is not as financially included as someone in the UK or USA.

level of inclusion is determined largely by factors affecting the demand side i.e. the consumer and the supply side i.e. the institutions providing the required services.

Factors affecting the demand side may specifically *exclude* the consumer from using the service i.e. an *access* barrier or, while the consumer may not be specifically or explicitly excluded, may be *discouraged* from using the services.

Similarly, on the supply side, factors (e.g. regulatory, shareholder pressures etc.) may explicitly exclude or discourage financial institutions from providing a particular financial service to certain economic groups.

With the emergence of A2F tools such as mobile money payments (MMPs) it is arguable that the regulatory aspect may also be a factor which can influence financial inclusion. In Kenya, the central bank of Kenya (CBK) allowed the facility to start up on its own and gave it a free rein to evolve before coming in with regulation while in Nigeria the Central Bank of Nigeria (CBN) is orchestrating and regulating the whole process from the very beginning.

The group of consumers most seriously affected by financial exclusion are those at the low end of the economic spectrum or as is now more frequently described, those 'at the bottom of the pyramid'[6] (Cohen *et al.* 2008).

Access to finance indicators can be very many in number.[7] However, this study measures access to finance by the following yardsticks:

(a) number of clients reached/served;

(b) types of services available;

(c) areas penetrated with financial services, especially rural or previously excluded areas;

(d) general spread of provision of financial services.

This paper will attempt to give some statistics on various measures of access to finance in Sierra Leone, such as percentage of those banked, percentage of those with access to savings, private sector credit, etc., even though this should form a comprehensive study all of its own.

A DFID/World Bank/FINMARK Trust survey (Chidzero *et al.* 2006) gives the dimensions of financial access as follows.

- Institutional dimension (across providers), e.g.
  - formal/informal,
  - public/private,
  - domestic/foreign.

[6] The 'bottom of the pyramid' comprises the 4 billion people in the world living on less than US$2 per day (Prahalad 2005).

[7] For example, Columbia has over 20 indicators.

- Functional dimension (across services), e.g.
  - transactions (check cashing to cross-border remittances),
  - savings (from safekeeping to investment),
  - loans and credits (infrequent to readily available),
  - insurance/risk transformation.
- Product dimension (across devices/interfaces), e.g.
  - types of bank accounts, types of loans, credit cards, etc.

The indicators of financial services access can be split into institutional and functional, again as given by the 2006 survey.

Institutional core indicators.

Banks and bank-like providers. Broad-spectrum intermediaries (including some credit unions and niche banks). Criteria: deposit taking, access to national payments network, supervision and oversight, standard terms.

Other formal financial institutions. More specialized, e.g. insurance, money transfer agents, finance/credit companies. Also regulated, vary by country and by service, trade-off of comparability/comprehensiveness.

Informal financial service providers. No financial regulation, but organized ROSCAs, tontines, moneylenders, pawn shops, esusu,[8] stokvels, etc.

Functional core indicators.

Payments. Receive money regularly through formal financial instruments: income, remittances.

Saving. Keep money in formal financial instruments which allow them to safeguard and accumulate money, transactions accounts, savings accounts, time deposits/bonds, stocks, voluntary pension plans, etc.

Loans and credits. Have obtained/have outstanding a loan or credit facility from a formal financial institution, now or over the past 12 months.

These cover the whole spectrum of financial access from full formal access to limited unregulated but organized access to finance. In some way or other, therefore, one could argue that everyone has some level of access to finance. Perhaps the argument regarding access to finance is that, at the level of the bottom of the pyramid and largely due its lack of any type of regulation, the available access is unreliable, unsecure and limited.

[8] An esusu group is a group of friends/colleagues who save regularly and each member takes a turn to collect the amount saved. It is a form of rotating savings and credit associations (ROSCAs).

For someone to be considered financially included to the minimum level, he/she must have formal (even if not central bank-regulated) access to at least one of the following facilities:

- access to saving facilities;
- access to credit facilities;
- access to money transfer facilities;
- access to insurance facilities.

The products and services developed from these facilities are the major tools for increasing access to finance and are described in the next section.

5.4 Microfinance and Other Tools for Increasing Access to Finance

Microfinance is of course one of the major tools for increased A2F and it includes microcredit, (micro) savings and microinsurance. Microfinance can provide very small loans – for example, from US$5 to US$50 – and accept saving deposits of less than US$1, which, despite the small size, can be essential for creating income-generating activities and sustainable livelihoods (Helmore 2009).

We shall describe the role and importance of these in this section as well as the other major tool, mobile money payments.

First, though, it is useful to have a working definition of microfinance. Microfinance in its original form was mainly credit-based and was the granting of small loans to very poor people mainly in rural areas to carry on microbusinesses. It was developed to provide low-income households with a way to build and expand their financial resources.

Two major aspects stand out here. First, microfinance was mainly about credit while saving (or other financial services) rarely featured. This was no doubt due to the fact that almost all microfinance activity was undertaken by non-bank institutions which were not regulated by central banks and therefore could not take deposits. Second, microfinance was only or mainly for business purposes. Again this was because microfinance was seen as an economic development tool to lift poor people out of poverty through increased economic activity. Poverty, however, is not only about income or economic poverty but also social poverty such as inadequate health, housing and education.

As the microfinance space has broadened it has become a pillar of economic development policies. In recent years, there has been a concerted effort to expand such programmes with the goal of alleviating poverty and promoting development (Buera *et al.* 2011).

Saving

Even though microfinance began with mainly credit it was hardly going to be self-sustainable without the saving element (Kristof 2009). Similar views about the importance of saving are also echoed by Dupas and Robinson (2009). Access to a formal saving facility is therefore perhaps the most basic financial service that can be offered to anyone who is economically active (i.e. with a source of income, even if intermittent). In 2001, Stuart Rutherford, an acknowledged expert in savings for the poor had this to say:

> Although their incomes may be tiny and irregular, the poor need more money than they often have at their disposal. The need for 'useful lump sums' arises from life-cycle events such as birth, education, marriage and death, from emergencies, including ill health, and from opportunities to invest in assets or commercial activities. The most reliable and sustainable way the poor can obtain 'useful lump sum' resources is to build them, somehow or other, from their own savings; savings-led financial services for the poor exist to help them do just that.

Almost everyone with some income does make some savings even if irregularly or with very small amounts of money or for short periods of time. Because they are financially excluded, however, most low income people at the bottom of the pyramid save in informal ways. These include:

- keeping money in a box at home;
- giving money to a relative (or even employer) for safe-keeping;
- joining a business association or savings club, e.g. esusu.

Most importantly, well-designed deposit services can enable poor people to take charge of their financial lives. Savings can provide a cushion against economic shocks, enabling poor households to reduce financial vulnerability.

Credit

Access to, and usage of, formal credit facilities usually follow a period of successful saving history. The period varies by different types of credit providers.

Formal sources of credit come in many forms and some do not even involve a bank or financial institution such as supplier credit where one buys goods on credit from a supplier of those goods.

Credit, in its various forms, is perhaps the most important activity of formal financial institutions and it is usually where they make or lose money. For that reason they are very cautious about lending money and more so to someone without an acceptable banking and saving history. The most common types of credit facilities in least developed countries such as Sierra Leone are:

- working capital/overdrafts, mainly for businesses;
- term loans for businesses such as for asset purchase;

- wholesale lending e.g. a commercial bank lending to a community bank or microfinance institution (MFI);
- consumer loans;
- specialist loans, such as for housing/property.

People, and especially the financially excluded, save so that they do not have to rely wholly or even partly (where possible) on credit, but in the end most of us have to rely to some extent on some form of formal or informal sources of credit either for personal and/or business purposes.

Microfinance has been the major tool used to increase access to finance and make the 'poor' more financially included. The Financial Inclusion Centre's website states that:

> Financial services tailored to the needs of poor people contribute to poverty alleviation, social justice, quality of life and human dignity. At a societal level, these services also contribute to the economic growth and stability of emerging markets. For these reasons, microfinance has emerged as a leading strategy in sustainable economic development.

In recent times therefore, the term 'microfinance' has become a buzzword in most of the developing world as well as in the formulation of welfare programmes by governments. Following success stories in microfinance across developing countries, particularly Bangladesh, third world nations started to give more importance to it. It is seen as *the* tool for eradicating poverty and has developed into the donors' favourite means of doing so (Augsburg and Fouillet 2006).

But is microfinance all it is cracked up to be? Until very recently, scarcely a voice was raised against it. It was regarded by governments, academics and increasingly by the wider public as an unalloyed public good (Centre for the Study of Financial Innovation 2011). The Centre for the Study of Financial Innovation (CSFI) survey goes on to ask: how can the bottom-up approach of microfinance be replicated widely enough to make a significant dent in the global problem of poverty? The report makes clear that a lot of people who are in or close to the microfinance sector are now worried that microfinance has taken a wrong turn and is suffering from 'mission drift'. It is clear that the sector as a whole is coming under much harsher scrutiny. There have recently been concerns in India and Bangladesh about the apparent adverse effects of microfinance to the extent that the celebrated Professor Yunus was relieved of his position as Chairman of Grameen Bank.

It appears therefore that the jury is still out on the impact of microfinance on economic development and therefore poverty eradication or alleviation. Several recent studies on the impact of microfinance have questioned whether microfinance has made a quantitative improvement in the lives of borrowers, or has had any effect on poverty alleviation on a systemic basis. Odell (2010) says a more comprehensive survey and additional studies of the macroeconomic effects of microcredit and microsavings are badly needed. This is despite a

2010 survey by the Poverty Reduction and Equity group of the World Bank (Kotikula *et al.* 2010) suggesting a definite correlation between microfinance and poverty alleviation in Bangladesh.[9] Several microfinance practitioners have countered the doubts about the poverty alleviation impact of microfinance and have witnessed the positive impact of microfinance (ACCION *et al.* 2010). They point to the following from the experiences of their programmes:

(a) business loans from microfinance institutions open a world of opportunity previously closed to them by the formal financial sector;

(a) savings accounts – equally critical financial tools – facilitate the safe accumulation of assets, while microinsurance reduces their vulnerability to risk;

(c) microfinance is particularly able to empower women.

Further, Buera *et al.* (2011) report that the Microcredit Summit Campaign Report (2009) documents 3,552 institutions with reported loans to over 154 million clients throughout the world as of 2007. For comparison, the numbers in 1997 were 618 institutions and 13 million clients. This is a sixfold increase in the number of institutions and 12-fold increase in the number of borrowers over 10 years.[10]

So far the few published randomized controlled trial (RCT) studies of microfinance have been able to track short-term results only (Odell 2010). Two that looked at standard microcredit clients over a short period (12–18 months) found no evidence of improvements in household income or consumption, although they did find some other possible benefits (Banerjee *et al.* 2009; Karlan and Zinman 2009). Interestingly, the only RCT study of microfinance so far that found short-term welfare improvements looked at microsavings, not microcredit (Dupas and Robinson 2009). A South Africa RCT found income improvements from small, high-interest consumer loans, but such loans are not usually thought of as microfinance (Karlan and Zinman 2008).

Many more of these studies, including especially longer-term ones, will be needed before general conclusions can be drawn. For now, it seems an honest summary of the evidence is to say that we simply do not know yet the extent to which microcredit and other forms of microfinance are helping to lift millions out of poverty.

What microfinance does, however, is to provide access to financial services for several million people who were previously excluded. The benefits of that access to the recipients however still appear to remain an open question.

[9] An interesting result of this study is that the decline in poverty is greater where microfinance access increased more sharply. For example, in areas where microfinance members increased by less than 20% the poverty rate fell by 3.9%. In areas where the number of microfinance members increased by more than 40% the poverty rate fell by 13.3%.

[10] Buera *et al.* concede that these increases overstate average growth – because of an increase in survey participation – but the actual growth is still dramatic. For example, a single programme, the National Bank for Agriculture and Rural Development (NABARD) in India grew from 146,000 to 49 million clients over this period.

5.4.1 Other Access to Finance Tools

Mobile Money Transfer

Formalization of money transfer services has seen a significant development over the past decade or so and new ways of money transfers especially using mobile telephony are taking hold especially in developing countries.

This rise has come about because despite microfinance’s growing success many low-income households still lack access to financial services mainly due to low population densities, poor infrastructure, weak financial product design, etc. However, branchless banking, particularly mobile banking, has been met with much enthusiasm because of its potential to deliver financial services to a much greater number of people at the bottom of the pyramid (Cohen *et al.* 2008).

Informal money transfer services among people have existed for decades especially the use of long distance drivers taking money for example, for person A in Freetown to a relative B in a rural village deep in, say, the Northern province. Banks too have always been involved in money transfers but often of relatively large amounts for businesses and personal banking customers. Then came the advent of services such as Western Union and MoneyGram in Africa including Sierra Leone.

The last few years have seen the dramatic rise of mobile money payments in Latin America and Africa with Kenya’s M-PESA leading the pack in Africa with over 9 million subscribers and 14 million registered SIMs (Sadana *et al.* 2011). In Sierra Leone there is ZAP provided by Airtel and Splash mobile money service.

The attraction of these transfers is that unlike most of the other facilities, it allows transfers of small amounts and an almost ‘at-your-doorstep’ service with little formality.

As a means of financial inclusion, mobile money transfer can potentially overtake saving as the easiest and most basic way to financially include the financially excluded into the formal financial system. The uniqueness of mobile money transfers arises because it is available without having to utilize, or be a customer of, a formal financial services provider.[11]

Insurance

Microinsurance is a scheme that uses an insurance mechanism whose beneficiaries are (at least in part) people excluded from formal social protection schemes, in particular informal economy workers and their families.

Below are the critical features of microinsurance:[12]

1. transactions are low-cost (and reflect members’ willingness and ability to pay);
2. clients are essentially low-net-worth (but not necessarily uniformly poor);

[11] This is used to mean an institution that is legally registered to provide financial services.
[12] See various publications from the Microinsurance Innovation Facility website.

3. communities are involved in the important phases of the process (such as package design and rationing of benefits);
4. the essential role of the network of microinsurance units is to enhance risk management of the members of the entire pool of microinsurance units over and above what each can do when operating as a stand-alone entity.

5.5 Demand for Financial Services in Sierra Leone

Access to finance cannot be meaningfully discussed without some indication of the level of demand for financial services. There have been very few definitive studies (such as a Finscope survey) on access to finance in Sierra Leone.[13] However, in early 2008 an EU BizClim-funded study[14] offered the first insights into microfinance demand[15] in urban and rural areas of Sierra Leone. The findings from that study have been compared to available national population data in order to quantify demand for various financial products and services.[16] It should also be noted that this study centred more on microfinancial services as opposed to overall, general access. However, given that the overwhelming majority of access to finance issues involves those at the 'bottom of the pyramid', the study remains very relevant as a measurement of overall access to finance.

The findings, as reported in Miamidian (2008) for funding agency Kreditanstalt für Wiederaufbau (KfW) are given below.

5.5.1 Size of Desire for Loans

According to the study, desire for microcredit is substantial and on the rise throughout the country. While only 10% of households currently have bank loans outstanding, 58% are interested in obtaining a loan within the next year. This need or desire, was double the previous year.

While Sierra Leone remains a primarily rural country, with 63% of the population residing in rural households, much of the country's economic

[13] Finscope is a widely recognized access to finance methodology developed by Finmark Trust of South Africa and used in most parts of East and Southern Africa as well as in some parts of West Africa (e.g. Nigeria).

[14] The Field Survey on the Microfinance Demand in Sierra Leone. In early 2008 an EU BizClim-funded study offered the first insights into microfinance demand in urban and rural areas. The findings from this study have been compared to available national population data in order to quantify demand for various financial products and services. It should be noted that these calculations are imperfect, and while useful for the initial strategy design, should be strengthened further by a Finscope survey as part of the FSDP.

[15] While the BizClim study uses the term 'demand', this paper was unable to establish that the term, as used in the BizClim study is in fact 'effective demand'. We will use the term 'desire' as opposed to the term 'demand' used in the BizClim study.

[16] It should be noted that these calculations are imperfect, and while useful for initial discussion, should be strengthened further by a Finscope-type survey as part of the Financial Sector Development Programme.

Table 5.1. Estimated desire for credit.

	Number of households	Percentage of households desiring loans	Value of average desire for loans (leones)	Value of total desire loans 2008 (leones)
Urban	268,250	63	2.2 million	371.8 billion
Rural	456,750	45	1.65 million	339.1 billion
Total	952,947			710.9 billion

Number of households is calculated according to the following formula:

- population of 5.8 million (according to 2007 World Bank data) divided by average household size of 8 (according to 2004 UE/BizClim survey) equals 953,974 households;
- urban population is 37% (according to 2007 World Bank data) equals 352,961 households;
- rural population is 63% (according to 2007 World Bank data) equals 600,987 households.

Source: table data calculated from Field Survey on the Microfinance Demand in Sierra Leone.

activity can be found in the capital city of Freetown, and other urban centres. The desire for loans reflects this reality. Table 5.1 presents an estimate of desire for loans in rural and urban areas.

5.5.2 Size of Need for Saving

The mix market found that the median MFI in Africa mobilizes more savings compared to its loan portfolio than MFIs in any other region. Microfinance institutions have learned over the years that reaching poorer, rural areas often requires savings-led initiatives, since savings are generally in higher demand than loans.

As such, the finding that savings needs in Sierra Leone are relatively low is surprising. Even more unusual is that saving needs are higher in the urbanized Western Area (30% of households) compared to the rural areas (between 6 and 13%). Miamidian finds this unusual because 'MFIs have learned over the years that reaching poorer, rural areas often requires savings-led initiatives, since savings are generally in higher demand than loans.' She believes this is likely reflective of the high levels of poverty in the country, as well as the loss of assets suffered by many families during the war. The study found that poverty was clearly a factor in ability or willingness to save.

The following table presents an estimate of the actual need for savings based on reported savings from 2007.

While these numbers are very low, it should be noted that the survey found that one-third of Sierra Leonean households would be interested in opening a bank account.

TABLE 5.2. Estimated desire for saving.

	Number of households	Percentage of households desiring savings	Average savings capacity (leones)	Total desire for saving 2007 (leones)
Urban	268,250	24	562,000	36.2 billion
Rural	456,750	8	168,600	6.2 billion
Total	952,947	—	—	42.3 billion

Source: data calculated from Field Survey on the Microfinance Demand in Sierra Leone.

TABLE 5.3. Money transferred annually (US$).

	Amount received annually	Amount sent annually
Urban	139,986,620	114,663,485
Rural	106,916,708	87,542,122
Total	246,903,328	202,205,607

Source: data calculated from Field Survey on the Microfinance Demand in Sierra Leone.

5.5.3 Use of Payment Services and Transaction Accounts

According to the study, 31% of Sierra Leonean households use money transfer services; making it the most frequently used financial service. Usage is similar in urban and rural areas, though gender distinctions vary dramatically, as the large majority of those willing to use formal money transfer services are women (86%).

It is interesting to note that only 8% of households transferring funds use formal channels including banks (3%) and Western Union (5%). Informal channels are much more frequently used in rural areas.

Extrapolating the available data, it appears that large amounts of money are sent within the country each year, primarily through informal channels.

Using the conservative assumption that all money sent is within Sierra Leone, a total of US$246.9 million in funds is moved through formal and informal channels around the country on an annual basis.

5.5.4 Size and Purpose of Demand for Leasing Products

There is limited information on the size of the demand for microleasing, however it appears that there is room for microleasing, potentially in conjunction with training and other business support services in developing microenterprises in productive sectors.

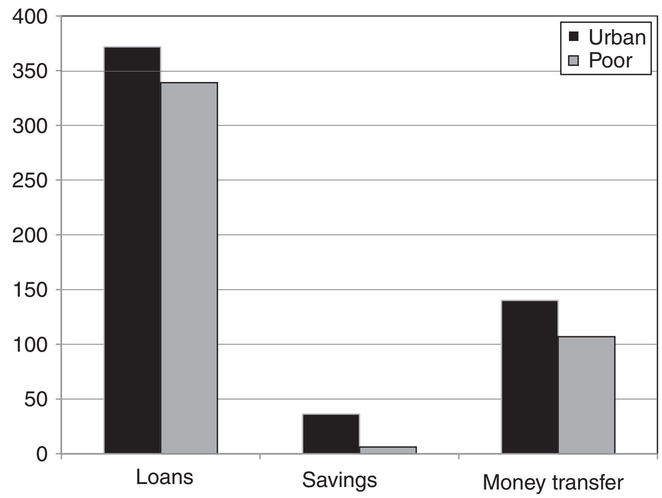

FIGURE 5.1. Desire for financial services. *Source*: EU BizClim study 2008.

5.5.5 Size and Purpose of Demand for Insurance Products

Microinsurance has proven to be an important service in the international microfinance landscape. As with many countries in which this service is new or limited, the largest impediment to determining demand is awareness. In Sierra Leone, only 2.2% of households are insured. Not surprisingly, therefore, most of the population has never heard of insurance, with a greater awareness in urban areas (51%) than rural areas (28%). Given this limited information, no estimate of demand for insurance is available.

Lack of information, however, does not imply lack of demand. Insurance companies have identified microinsurance as their primary growth market.

Figure 5.1 gives a diagrammatic presentation of the financial services demand in Sierra Leone and illustrates the extremely poor demand for savings services, which should be the basic and most sought after financial service. It suggests a worrying lack of appropriate financial intermediation in the banking industry and the financial sector specifically. This apparently dysfunctional situation may be largely due to the poor state of financial product development in Sierra Leone where the development of appropriate financial services products is not given sufficient attention. This shall be discussed in more detail in Section 5.12.

Finally, the KfW document summarizes demand for finance as follows.

5.6 Types of Microfinance and Other Access to Finance Providers in Sierra Leone

According to the MITAF II project document, in 2003 it was estimated that, of the 90,000 to 160,000 potential microfinance clients in Sierra Leone, fewer than 15,000 had access to financial services. In 2009 the number of clients of the microfinance sector increased from 13,000 in 2004 to 123,000. This strongly suggests that microfinance in Sierra Leone has done tremendously well over the past five years or so.

Although Sierra Leone's financial sector is dominated by the banking and microfinance sectors, and from the perspective of 'access to finance/financial services' these two are the most important, mobile money payment providers are fast catching up. The discussion in this section will also include NASSIT, which as mentioned earlier is a social security fund but arguably has the largest number of savers, most of whom would qualify as micro or small. Providers of microfinance in Sierra Leone are varied, and can be grouped as follows below.

- Formal (regulated/supervised by the central bank or other regulatory body):
  - commercial banks;
  - community banks.
- Semi-formal (legally and formally registered but not by the Central Bank):
  - microfinance institutions;
  - cooperatives;
  - financial services associations;
  - village savings and loans associations;
  - government and donor funded projects/programmes.
- Informal:
  - savings clubs such as esusu groups;
  - other informal groups such as business associations, farmers and other sectoral groupings.

We shall now examine each type in some detail.

5.6.1 Commercial Banks

One common feature of the banking system in Africa is that a large number of them invest in government securities, primarily treasury bills. Although Allen *et al.* (2010) believe this is reflective of a highly dysfunctional banking intermediation that ignores provision of private credit in favour of safer government securities, it is in fact a deliberate and rational choice by the banks, in their circumstances, designed to reduce risk and maximize profits. Be that as it may, it does not help in increasing financial access. A review of the Sierra Leone banking industry 2010 results (Fraser 2011) shows that, on average, banks in Sierra Leone invest 55% of their earning assets in government and other securities (including the statutory cash ratio) and only 34% in loans and advances.

The number of commercial banks has increased to 13 with the entry of a number of new banks in the last few years, particularly Nigerian-owned banks and banks remain the dominant player in the financial sector. A few of the commercial banks (such as Ecobank, First International Bank, Union Trust Bank) have piloted microfinance schemes in the past year in direct competition with microfinance institutions. However, most banks in Sierra Leone remain deeply conservative and are mainly concentrated in the capital city, Freetown. Before the war, the economy had less than half that number of commercial banks almost all of which had reasonable coverage in major parts of the country, especially provincial headquarter towns. However, during the war, the network of bank branches across the country was substantially affected. Many branches were victims of lootings, vandalism and abductions of staff.

With the formal end of the war, and declaration of peace in the country in 2002, economic activities have been returning to prewar levels, thus ushering in the establishment of several new commercial banks in addition to the ones that existed before the war.

Consequently, the level of competition among commercial banks has intensified. Competition will become even fiercer when these 'mainstream' banks begin (as, for example, have Union Trust and FI banks) to venture into rural areas to compete not only among themselves but also with rural financial providers such as community banks and financial services associations. These latter two types have several challenges but on paper may be better suited to provide more appropriate financial products and services to local communities than do the commercial banks.

Diagnostic studies of the financial sector (see, for example, Kargbo and Adamu (2010, pp. 33–35)) identified both systemic and institutional inefficiencies in the financial sector that have contributed to the high cost of financial intermediation and limited the availability of financing for productive investment, especially for small and medium-sized enterprises. Legislative and other structural inadequacies also handicapped (and still do to a certain extent) the financial sector resulting in the following consequences: weak judicial procedures for loan recovery; weak credit risk evaluation mechanisms for bank clients; and high intermediation costs.

To address these problems, the Bank of Sierra Leone (BSL) and Banking Acts were revised in 2000 to provide a sound legal framework for the banking system consistent with a more independent central bank and effective banking supervision. New banking regulations were issued requiring increased capital and reporting comparable with international standards, to make the banks more stable and less prone to failure. The BSL is now better placed to pick up early warning signals of weaknesses in financial institutions. The regulatory and supervisory role was extended to other financial institutions, which led to the enactment of the Other Financial Services Act in 2001.

Therefore, while struggling to rectify their problems, commercial banks in Sierra Leone have been relatively slow to embrace microfinance, unlike countries in East and Southern Africa and even to an extent in West Africa, especially Francophone West Africa.

About five years ago, Sierra Leone had its first microfinance bank when the foreign-owned pro-credit bank began operations in Freetown. Its experiences however were not positive and in 2010 it sold its operations to Ecobank which has maintained the microfinance arm as part of its operations.

The other bank with a major microfinance focus is Union Trust Bank (UTB) which runs its microfinance operations largely through Finance Salone as its microfinance subsidiary.

FI Bank[17] is also making significant strides in microfinance provision in Sierra Leone, especially in the area of agriculture.

5.6.2 Rural Financial Services Providers

Community Banks

In terms of being closest to the real targets of microfinance services, community banks are designed to be just that. In 2009, there were six community banks (CBs) operating in Sierra Leone.[18] These community banks were established between 2003 and 2008 by the BSL through a capital injection programme as a catalyst for financial services extension into the rural sector of the economy. The banks were geographically distributed across the four provisional headquarters of the country so as to stimulate rural communities to rebuild their lives through access to financial services. In 2010, the Rural Finance and Community Improvement Programme (RFCIP), a rural finance project in the Ministry of Agriculture, Forestry and Food Security (MAFFS) helped establish three other[19] community banks and aims to establish another four by the end of 2011 which will bring the total of community banks to 13.

Rural banks were first established in the 1980s across the country. They were meant to provide financial services to rural populations, where the traditional commercial banks were averse to operate and penetrate due to high transaction costs, poor infrastructure, etc. They were created with substantial financial support provided by the BSL, including participating in the equity capitalization. The banks provided simple deposit services and loan products, as a downscaled version of commercial banking operations. However, they became defunct and non-operational at the height of the war.

[17] It used to be known as First International bank but is now FI Bank.

[18] They included Segbwema Community bank (Kailahun district), Mattru (Bonthe district), Marampa community bank (Lunsar, Port Loko district), Yoni (Tonkolili District), Zimmi community bank (Pujehun district) and Kabala community bank in Kabala (Koinadugu District).

[19] Pendembu (Kailahun district), Jiama Suafe (Kono district) and Kayima (Sandor Chiefdom, Kono district).

Capital injection in the form of term loans to each community bank ranged from Le 700–900 million, used for construction of buildings, purchase of vehicles (one car and one motorcycle), computers, generators and other equipment. Only Le 100 million (about US$25,000) each was allocated as working capital including for on-lending operations. The CBs were imposed on the communities instead of simply being facilitated to evolve where the community would feel stronger ownership. The BSL, in establishing them, had felt the banks would be able to accumulate capital through savings mobilization and earnings from fees and interests on the loans they would extend to their clients, and that, given the assumed high demand for financial services, in the selected areas, their capital positions would have improved in the succeeding years, to allow them to repay the long-term credit provided by BSL. The Bank of Sierra Leone also provided technical advice and support to the CBs, through its representatives on the boards of directors of these banks. This also provided the banks with on-site inspections twice a year. The BSL, however, since 2008, ceased having representatives on the boards of CBs, to avoid the conflict of interest by being both supervisor and implementing agent.

The unsatisfactory situation of low liquidity, poor deposit mobilization and weak operating structures such as poor internal controls, led all the CBs to change their legal status by transforming into companies limited by shares. They began selling shares in 2008, with the objective of attracting more capital and liquidity, to improve both their client outreach.

Community banks' performance. At establishment these banks had high operational costs (such as a high staff to client ratio because of too many staff), disproportionate to volume of business, and commenced lending activities with limited capital only six months after inception and poor loan repayment performance. As a consequence, all CBs incurred losses during their early years of operations. These problems plus inability to raise more capital led to liquidity constraints which did not allow them to increase the loan portfolio and expand their operations. Savings mobilization did not reach the expected high levels. They all had high administrative cost and the relatively low interest rates charged on loans[20] that did not enable them to earn sufficient incomes to cover the costs. Furthermore, for some of the banks, loan appraisals were not effectively done in the initial years of operations, which led to further losses as a result of delinquent loans. Such was the case, for example with the Segbwema CB which too quickly rushed and gave out over 500 loans in the early months of operations in 2005, because it wanted to meet the requirements of MITAF to benefit from a grant of US$30,000. The consequence was that there were bad loan appraisals (some of which were not even referred to the board for

[20] An option would be to raise their interest rates but this would make their loan products unattractive to the target group.

approval), which led to a portfolio at risk[21] (PaR) of close to 90%.[22] The bank was therefore obliged to effect loan write-offs in 2008 that enabled it to lower the PaR to the current rate of 30%.

Generally, it can be said that the inadequacy of on-lending capital made it difficult for the banks to record successful performances. Their operational revenues are however gradually improving. Four of them have reached operational self-sufficiency (OSS), while three of those four have achieved financial self-sufficiency (FSS). They have all received, at some point, capacity building from MITAF I, and this has helped them operate in a more efficient way. All the CBs are planning to introduce computerized management information systems in their operations, and some also plan to hire new credit officers so as to lower the ratio of clients per credit officer, which is currently around an average of 600–800. Despite the constraints and relatively weak overall performance, the CBs in over 5 years of operations were able to mobilize a reasonable combined deposit of Le 8,299.9 million as at September 2008. The banks also attracted 9,459 account holders during the period. These deposits were only mobilized in 32 chiefdoms in 6 districts, out of 149 chiefdoms in the 12 districts of the country. They have therefore been able to spread banking habits, mobilize deposits and provide finance to promote income generating activities to a growing number level of low income entrepreneurs.

Main challenges and constraints of community banks. The main challenges and constraints of CBs are the following:

- inadequate liquidity;
- high operating costs;
- inadequate computerization;
- untrained and inexperienced staff;
- inexperienced directors and management;
- lack of shared resources and services;
- inadequate supervision.

The challenges faced by community banks have been significantly reduced with the support of the Rural Finance and Community Improvement Programme (RFCIP). The project has so far facilitated the establishment of three more community banks (to add to the original six), provided capacity building and technical backstopping as well as capitalizing some of the banks. Some

[21] With PaR, the full outstanding balance of a loan is deemed to be risk as soon as one repayment is missed. This is a stricter measurement of portfolio quality than the more simple repayment rate ratio where the portfolio risk is simply measured against the number of repayments missed as opposed to being measured against the full remaining outstanding balance.

[22] Any portfolio at risk of more than about 5–10% is a sign of poor loan portfolio management.

problems with technical capacity and capital however remain. These issues have been recognized by the BSL and strengthening of community banks is specifically mentioned in the Financial Sector Development Plan (FSDP).

Financial Services Associations

Financial services associations (FSAs) are rural grass-roots financial institutions registered as community-based organizations that provide a range of financial services to poor rural communities and are owned and operated/managed by rural communities via associations. The main available products offered are credit facilities for income generating activities and small businesses. The establishment and ongoing development of FSAs is also a major focus of the RFCIP.

As organizations, FSAs are built up from[23] locally available financial resources mobilized from the local residents and transformed into loan capital from which credit is provided to qualified shareholders who require it. Only shareholders can be customers of an FSA. As a result, a major element of an FSA loan appraisal is the FSA's knowledge of the borrower who is not only an FSA shareholder but also almost always a local resident. Loan sizes are up to a maximum of four times the held shares.

The FSAs, based on an idea borrowed from eastern Africa – Kenya, to be precise – operate informally, with villagers or people living in very informal settings without access to, and the capacity to meet the 'prudential' demands and requirements of, formal commercial banks. The FSA model also takes advantage of existing local customs, knowledge, relationships, and group solidarity.

FSA products. A well-established and fully operational FSA may have a wide range of products and services. However, it should be noted that since the model is still new in Sierra Leone, group and individual loans, voluntary saving from shareholders and money transfers are the only services offered presently. Services planned to be offered are as follows.

Money transfer facility (MTF). Money transfer from and to FSA and other financial institutions (including overseas).[24]

Third party cheque clearance. The FSA will offer services of clearing legitimate bank cheques on behalf of its shareholders.

Sale of cheque leaf. The FSA shall avail cheque leaves for sale to those clients who wish to transfer money in form of cheque system.

[23] While all the FSAs in Sierra Leone as well as in some other parts of Africa (e.g. Kenya) have been assisted in the establishment and development by development partners (such as IFAD in Sierra Leone) the local population invests by buying shares and the donors exit eventually.

[24] Although none of the FSAs is carrying out money transfer services at the moment, some expect to begin providing this important service very soon in order to better serve the rural communities by linking them with remittances from their relatives abroad.

Pay point to all interested parties. The FSA will act as a pay point to the willing shareholders who are on current payrolls and receiving retirement pensions.

FSA experience in Sierra Leone. There are currently some 26 FSAs operational in Sierra Leone under the RFCIP, which is funded by the International Fund for Agricultural Development (IFAD). The FSAs are located in the interior of the country across Kono, Koinadugu, Kenema, and Kailahun districts – the operational area of RFCIP. The objective is for there to be at least one FSA for every two Chiefdoms in Sierra Leone. This means that by the time the project ends there should be at least 75 FSAs.

Village Savings and Loans Associations

The Village Savings and Loan (VS&L) model is a savings-based approach that has proven on a very large scale that it can substantially fill the financial services gap (Helmore *et al.* 2009). By intermediating small local pools of capital to satisfy household cash-management needs it facilitates immediately sustainable and profitable savings, insurance and credit services to people who live in places where banks and MFIs do not have a presence.

The model was originally developed in Maradi, Niger, by CARE International in 1991 and has spread to 33 countries in Africa, 3 in Latin America and 7 in Asia, with now almost 3 million active participants worldwide.

The methodology, in various forms, is now used by international NGOs to provide entry-level financial services to people who are either too poor or living in places that are too remote to be availed of financial services by microfinance institutions.

A village savings and loans association (VSLA) is a self-selected group of people who pool their money into a fund from which members can borrow.[25] The money is paid back with interest, causing the fund to grow. The regular savings contributions to the group are deposited with an end date in mind for distribution of all or part of the total funds (including interest earned mainly from loans given out and from bank savings accounts) to the individual members, usually on the basis of a formula that links payout to the amount saved. This lump sum distribution provides an amount of money that each member can then apply to his/her own needs.

CARE's VSLA programme in Sierra Leone is Expanding Microfinance Opportunities to Poor People (EMOP), which aims at improving household livelihood security of 46,200 people (6,600 direct beneficiaries) in four chiefdoms of Koinadugu district. The project will increase access by 6,600 rural low income farmers, youths and women to financial services through the establishment of village savings and loan schemes and linkage with microfinance institutions

[25] In CARE's VSLAs, each member contributes to a savings fund with small, regular and mandatory deposits. The comprehensive training programme by CARE supports the group for up to one year, and includes skills to succeed in saving as well as establishing new businesses.

TABLE 5.4. Key statistics for Finance Salone.

	2008	2009	2010 (to June)
No. of active savers and borrowers	15,704	17,831	18,578
Amount loaned out (billion leones)	19.4	19.7	9.6
Amount of savings (billion leones)	1.8	1.5	1.6
No. of branches	10	10	11
Gender split among borrowers: male	7,017	8,688	8,887
Gender split among borrowers: female	8,687	9,144	9,691

Source: Finance Salone.

and community banks. By 2009, just three years after introducing it, CARE had established over 350 VSLAs with close to 11,000 members.

CARE has found that VSLAs meet the need for savings and credit at the very bottom rung of the world's economic ladder.

5.6.3 NGO–MFIs

There are about nine[26] active microfinance institutions (MFIs) in Sierra Leone. Unlike community banks and commercial banks, MFIs are not allowed to accept deposits. They are however a major avenue of financial access to the informal and rural sectors of the country.

Little introduction in needed for NGOs and MFIs, being the pioneers of microfinance provision in most African countries. Most began as donor-funded projects (for example, the Kenya Rural Enterprise Programme – KREP – which is now a bank) and to varying degrees copied the Grameen Bank model. Four NGO/MFIs which are considered the most successful are discussed briefly below.

Finance Salone

Finance Salone was established in 2005 and is arguably the leading microfinance institution in Sierra Leone. In 2010 Union Trust Bank bought a majority shareholding in it. Even with its affiliation to UTB, it is not allowed to accept deposits in its own name and so only have loan products. This affiliation however has enabled it to obtain additional equity and concessional loans from the bank.

Table 5.4 shows some salient statistics as at June 2010.

The table shows consistent increases in all the areas measured.

Finance Salone offers three main products, all loans (group and individual loans for business purposes and consumer loans). These products are offered mainly in Freetown localities and commercially busy provincial towns outside

[26] ARD, BRAC, CEDA, Finance Salone, GGEM, Hope Micro, LAPO SL, Luma and SMT.

Freetown. Loans finance mainly petty trading (75%), services such as auto repairs, beauty salons, restaurants, etc. (10%), and handicrafts (15%).

Finance Salone has 11 branches operating throughout the country and 6 sub-offices and serves over 18,000 clients. Its 2009–13 plan envisages further extension. Finance Salone had (as at September 2010) a repayment rate of 98% and an acceptable portfolio at risk below 30 days at 5%.

Lift above Poverty Organization

The Lift above Poverty Organization (LAPO) originated from Nigeria. It provides small individual loans (ranging from Le 300,000 to Le 1.5 million i.e. US$70–350) for a period of repayment ranging from five to eight months, at 3% interest rate per month. As collateral, a 10% deposit is required. A follow-up service to the clients is usually immediately made to avoid defaults, which are currently recorded at only 2%. The portfolio at risk (PaR) is an excellent 1.16%.

By mid March 2009,[27] LAPO had reached over 8,000 clients through two branches in Freetown and Kenema. It plans to further extend its services to urban and semi-urban areas.

Hope Microfinance Institution

Hope Micro's mission is to provide financial services for the poor in a manner that is sustainable, readily accessible, and responsive to their needs. Hope Micro provides commercial loans for trade through a group lending solidarity method, with a 3% flat interest rate per month. The loan size ranges from Le 50,000 up to Le 500,000. It had tested some agricultural loans, which didn't succeed because of the failure of the crops financed (weather, disease, etc.).

Early in 2011 Hope Micro established a partnership with KopoKopo and Splash Mobile Money to bring mobile financial services to their 16,000 microfinance customers. Hope Micro plans to scale the service in order to offer both loan disbursement and repayment through Splash Mobile Money to all of its 16,000 customers. Hope Micro is the first MFI in Sierra Leone and one of the first in West Africa to offer mobile financial services.

Its customers may now be able to repay their loans using Splash Mobile Money, a service allowing users of the top three mobile networks to load cash to their phones, send money, pay bills, withdraw cash, and buy goods. This initiative should serve to bring thousands more people into the financial access fold.

BRAC (Sierra Leone)

BRAC Sierra Leone's microfinance programme was set up in 2007 and has been designed to provide reliable access to cost-effective financial services to

[27] See www.mixmarket.org/mfi/country/sierraleone.

poor and marginalized women. The nature and content of the programme is described below.

Women’s groups. These groups deliver the microfinance and other programmes through organizing groups of poor women who come together to improve their socioeconomic position. The BRAC microfinance branch offices conduct area surveys and consult with community leaders and local elders to select the 30–40 members of each group. The group is then subdivided into smaller groups of five, each with their own elected leader.

The members of each small group take joint responsibility to solve peer repayment problems. New borrower groups meet four times before any loan disbursement takes place. After that, they meet weekly to discuss credit decisions with their dedicated BRAC credit officer and make their loan repayments. Also, BRAC provides training and technical assistance to its members and others in the community, empowering them to earn more income from existing activities and start new ones.

Microloans. At the core of the programme are microloans, which are exclusively for the women participating in the group process. Borrowers range in age from 18–50 with little or no education and to women who are not served by other microfinance institutions.

Key features of a microloan. The key features of a microloan are

- loan repayments in small weekly installments,
- no physical collateral needed,
- loan range of US$100–300,
- competitive interest rates, that is, rates that are more attractive than their competitors’ rates,
- death benefits provided in the form of an insurance payout,
- financial services delivered to member’s village,
- available in rural and urban areas.

Small enterprise loans. BRAC offers small loans to individual entrepreneurs seeking to expand their small businesses. Typically, loans are given for trading, agriculture, poultry and livestock, fruit production and other types of small enterprises. These small entrepreneurs would otherwise have limited access to the formal financial system – they are too large for microloans but with insufficient/inadequate collateral for commercial banks. Some members of the microloan scheme become eligible for a small enterprise loan as their businesses grow and expand and their investment needs change.

Key features of a small enterprise loan. The key features of a small enterprise loan are

- availability to both male and female entrepreneurs,
- loan range US$1,000–3,000,
- lower interest rates relative to its competitors,
- repayment mode of equal monthly installments.

5.6.4 Cooperatives

Sierra Leone has had a long experience with the cooperative movement, but the long exposure to the tenets of the movement has not left it in good stead. Some studies (see, for example, Ferguson *et al.* 2005; Fraser *et al.* 2011) have shown that the existing cooperative movement in Sierra Leone is weak with only few active cooperative societies.

Several benefits accrue from adherence to cooperative principles (Reynolds 1998). Today, governments expect cooperatives to inform policymaking and engage in advocacy while the cooperatives themselves seek a more pronounced, active and permanent role in decision-making (Mercoiret 1999). Cooperative societies can (as seen, for example, in East Africa[28]) be a major source of income and investment for low-income people (Wanyama 2009). The shared spirit of cooperation and empowerment leads to engagement in larger projects such as reconstruction of schools or health facilities.

Given their successes elsewhere in Africa, cooperative societies therefore could also, and indeed had have a very important role to play in Sierra Leone's socio-economic development. However, over the past 10–15 years a number of problems have dogged the cooperative movement in Sierra Leone (Fraser *et al.* 2011):

- weak capacity in the cooperative department;
- lack of an apex cooperative body or congress;
- other problems, such as an old and unrevised cooperative law and lack of a national cooperative policy.

What appears to be the most recent and only definitive study of the cooperative movement in Sierra Leone is a 2006 study Ferguson *et al.* (2006) prepared for

[28] Cooperatives are recognized by the government of Kenya to be a major contributor to national development, as cooperatives are found in almost all sectors of the economy. With the total population of Kenya at approximately 37.2 million (Republic of Kenya 2008a, p. 13), it is estimated that 63% of Kenya's population participate directly or indirectly in cooperative-based enterprises (Ministry of Cooperative Development and Marketing 2008, p. 4). Indeed, the Ministry of Cooperative Development and Marketing estimates that 80% of Kenya's population derives their income either directly or indirectly through cooperative activities (see Wanyama 2009).

the Commonwealth Secretariat that made the following observations which remain largely valid today:

> In the early 1980s cracks began to show in the movement as excessive reliance on government support led to government interference in some cases and to weak internal capacity in others. As the Cooperative Department began to downsize and withdraw services, the movement shrank and experienced failures.[29]
>
> Inclusive Growth Strategies 2011

With the end of the rebel war, a programme of cooperative revitalization has been undertaken by MTI and the Cooperative Department. This is an initiative to provide credit primarily, but not exclusively, to the fishing industry by the African Development Bank (AfDB) and, to a lesser extent, by the government of Sierra Leone (GoSL). Attracted by the promise of credit access, almost 800 cooperatives were established or revitalized, more than three-quarters of which were new (Fraser *et al.* 2011).[30] Unfortunately however, this has not worked out very well as the scheme was abused and most of the cooperatives are now defunct.

In addition, international NGOs and even other government departments are establishing cooperatives that are not being registered with the Department of Cooperatives, thus the true size of the cooperative movement is not known.

The revitalization efforts continue and, currently, there are over 1,000 officially registered, but unviable, cooperatives in Sierra Leone. The Ministry of Trade and Industry has also recently commissioned a consultancy firm to undertake a study of the movement in Sierra Leone with the objective of developing a policy and legal framework.

There is much to do to develop the cooperative movement in Sierra Leone and it should not be counted on any time soon to provide any meaningful contribution to A2F.

5.6.5 Other Access to Finance Providers

Mobile Money Payment Providers

Mobile money providers are becoming a major access to finance tool in Sierra Leone and in the past two years the major ones are SPLASH and Airtel.

SPLASH. SPLASH operates on three of the mobile telephone networks in Sierra Leone (Airtel, Comium and Africell) and was launched in September 2009 as a pilot and was rolled out in February 2010. By October 2010 it had 9 branches, 40 sub-agents and subsidiaries with up to 150 outlets countrywide and had 50,000 users. Currently (May 2011) SPLASH covers all major towns

[29] Even these are still few and fledgling. Some of the previously stronger ones such as the dockworkers cooperative are now floundering.

[30] Most of these appear to have been established only to take advantage of the AfDB microcredit.

in Sierra Leone and has now reached 70,000 users. In October 2010, SPLASH teamed up with Union Trust bank as an agent in the SPLASH network using its network of bank branches. It also has a similar arrangement with Guaranty Trust Bank.

Airtel. Airtel started their service in 2010 and claim to cover 90% of the country with this service. In barely one year of mobile money transfer operations, it states that it has reached 254,643 active users with over 400 agents. Like SPLASH, Airtel also collaborates with two banks, Zenith bank and Guaranty Trust Bank.

5.6.6 Microinsurance in Sierra Leone

Microinsurance is virtually non-existent in Sierra Leone. Very few of the eight insurance companies in Sierra Leone have developed microinsurance products. Aureol insurance company has developed a microinsurance product but is finding it difficult to interest the target groups (MFIs, small business associations and banks). They report that the target groups, especially the banks, seem more interested in insuring the *loans* made to their micro and small business clients.

The very experience of microinsurance was that the few small business traders who did take out insurance did not renew their policies after the first year. The industry believes that, apart from cost of premiums, some businesses also had bad experiences regarding claims and so lost faith in insurance. Another complaint from the industry is that even the NGO/MFIs themselves do not seem to understand and therefore do not value microinsurance.

5.7 Access to Finance: Outreach in Sierra Leone

5.7.1 Commercial Banks' Outreach

According to the Financial Sector Development Project document, there were only 160,000 bank accounts in the country in 2006. The document goes on to state that Sierra Leone has one of the lowest bank branch penetrations in Africa with one branch per 200,000 people, although more branches are opening. Credit to the private sector amounts to 5% of GDP, far below the sub-Saharan African average of 17%. Agricultural loans account for only 2% of gross loans, although agriculture provides 75% of employment and 50% of GDP.

Table 5.5 gives Sierra Leone's banking outreach from 2007 to 2009 and a comparison with Ghana in 2009.

The table above shows significant increases in availability of banks and their services from 2007–9 in Sierra Leone. Even the number of ATMs is no longer 'N/A' with Rokel bank, Ecobank, UBA and a few others having introduced ATMs, some of which accept international visa debit cards. This shows that the other aspect of A2F i.e. access to a wider variety of services even for the already banked, is on the increase.

TABLE 5.5. Sierra Leone banking outreach 2007–9.

	2007	2008	2009	Ghana 2009
Number of borrowers from commercial banks per 1,000 adults	4.7	8.1	9.0	34.0
Outstanding loans from commercial banks (% of GDP)	5.6	7.5	9.4	31.4
Number of depositors with commercial banks per 1,000 adults	63.9	92.4	113.1	332.3
Outstanding deposits with commercial banks (% of GDP)	16.1	18.5	20.4	40.8
Number of commercial bank branches per 1,000 km^2	0.8	1.0	1.2	3.2
Number of commercial bank branches per 100,000 adults	1.8	2.2	2.8	5.1
Number of ATMs per 1,000 km^2	N/A	N/A	N/A	N/A
Number of ATMs per 100,000 adults	N/A	N/A	N/A	N/A

Source: IMF 2009 Financial Access Survey.

Comparison with Ghana (Table 5.5), however, shows Sierra Leone's banking outreach still trailing way behind.

There are few specific reports/statistics from commercial banks in Sierra Leone but an annual report (Johnson 2009) showed the number of branches of commercial banks increased to 73 in 2009 from 57 in 2008. As of August 2010 there were 80 (Bank of Sierra Leone 2011).

Credit to the private sector by the commercial banks continued to grow, reaching a high of 46.17% of total credits in 2009 (Bank of Sierra Leone annual report 2009) (which is in line with the Africa average of about 46%) from only 29% in 2008 (Miamidian and Khalaf 2009). There is no indication what percentage of this went towards microfinance.

The commercial banks' net loan-to-deposit ratio was only 33% in 2008 and rose to 53% in 2009 which suggests increased lending generally but, again, no breakdown to microfinance lending.

At the end of 2010, the commercial banks' outreach statistics were as shown in Table 5.6.

5.7.2 Outreach of NGO/MFIs and Other Microfinance Providers

In terms of the NGO/MFI types, the preceding sections have shown that there has been, and continues to be, increased outreach by MFIs. Finance Salone for example, has, in its 5 years of existence, reached 11 towns.

Tables 5.7–5.10 give some details of the outreach and performance indicators of other access to finance providers.

TABLE 5.6. Commercial banks' outreach (December 2010).

	Number of loans	Total value of deposits	Total clients	Number of branches
2008	19,287	1,077,078,079	17,858	57
2009	24,624	1,310,551,912	24,731	75
2010	—	1,825,702,820	27,750	80

Source: Bank of Sierra Leone.

TABLE 5.7. NGO/MFI outreach (September 2010).

	Number of savers	Total active clients	Number of MFI outlets
2008	N/A	75,746	—
2009	N/A	93,590	—
2010	N/A	101,250	—

Since non-bank MFIs are not allowed to take deposits the number of savers would be more or less the same as the number of active clients.

TABLE 5.8. Community banks (September 2010).

	Number of loan clients	Number of depositors (US$)	Total clients	Number of banks
2008	—	—	—	6
2009	—	—	—	6
2010	9,261	12,156	21,870	9

Figures for 2008 and 2009 were not available except for number of community banks.

A major concern for NGO/MFIs is bad debts which lead to write-offs. Between 2007 and 2009, four NGO/MFIs alone had to write off Le 6.7 billion (approximately US$1.5 million) (National Commission for Social Action 2010).[31] This represents only 4% of the whole NGO/MFI industry's outstanding loan portfolio. However, since the largest single write-off was Le 3.6 billion (US$840,000) and the highest single amount of portfolio outstanding among the MFIs over the period was US$12 million, it means that, at best, there was a single write-off of 7%[32] of one MFI's portfolio or, maybe at worst, over 56%.[33]

Increased activity (more loans, increased savings, etc.) by banks does not necessarily mean increased access to financial services. What this attempt to

[31] *Credit Lines* is NaCSA's microfinance programme's biannual newsletter.
[32] US$840,000 as a percentage of US$12 million.
[33] That is, if the largest write-off of US$840,000 was among the four MFIs whose write-offs totalled US$1.5 million.

TABLE 5.9. FSAs.

	Number of loan clients	Number of depositors (US$)	Total shareholders	Number of FSAs
2008	623	N/A	2,819	6
2009	1,547	N/A	6,256	11
2010	3,514	N/A	12,446	17

As at June 2011 there were 26 FSAs and over 19,000 shareholders.

TABLE 5.10. Mobile money transfers.

Number of clients	Total clients	Number of outlets
$>$ 320,000	—	—

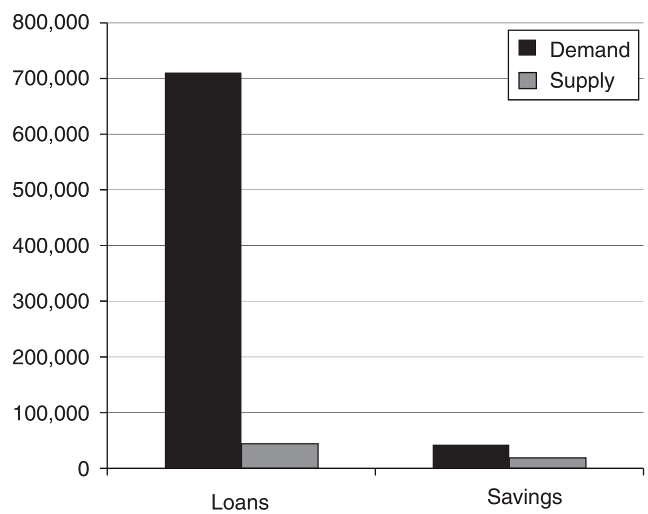

FIGURE 5.2. Access to finance: supply and demand. Note that 'demand' here has been taken to represent 'desire' as opposed to 'effective demand'. *Source*: MITAF Presentation 2010.

quantify access shows is that Sierra Leone still needs to definitively quantify its level of financial access.

5.7.3 Summary of Outreach and Access to Finance

As can be seen from Tables 5.7–5.10, there have been increases in all the various types of providers of microfinance and other A2F providers. Despite the significant increases, however, Figure 5.2 shows that desire still far outstrips supply, especially for loan products. Whether desire will turn into effective demand if supply does increase is another, perhaps even more important consideration.

A limitation of Figure 5.2 is that it only gives a picture for loans and savings products and none for the other types of access to finance tools.

Another limitation of the figures from Tables 5.7–5.10 is that they may almost certainly include a significant amount of double counting as client figures and transaction (savings, etc.) values may include customers with multiple accounts, borrowings, etc. That would certainly be the case for commercial banks as well as for NGO/MFIs where belonging to multiple MFIs occurs regularly. Further, while commercial banks' increasing numbers could conceivably mean increased access to financial services, microfinance clients would make up a negligible percentage.

What comes out clearly from the patchwork of microfinance outreach in Sierra Leone is the scarcity of credible and definitive information on actual outreach or access. A definitive baseline study will be useful.

5.8 Sustainability of Financial Access

Increasing numbers in geographical spread and client intake is all well and good and on the surface gives a picture of increased access. A2F however should also be measured against the sustainability of such access. Sustainability will depend largely (but not exclusively) on the continuing sustainable existence of the financial access provider e.g. an MFI such as Finance Salone and their continued ability to meet the needs of their target groups.

The part failure of FI Bank's esusu product in Freetown is a lesson, as are the original failures of the community banks. Similarly, the major write-offs of some microfinance institutions in 2009 (see footnote 33 and the Table 5.8 notes) and sustainability ratios[34] for MFIs in Sierra Leone do not make for very optimistic reading. Though the high-performing MFIs have strong sustainability ratios,[35] Table 5.11 shows that the sustainability of MFIs generally remains a concern.

Average PaR is increasing and by September 2010 was way over 10% while operational self sustainability (OSS) was still under 100% and financial self sustainability (FSS) was way off 100%. Financial services associations seem to have fared much better even though they are a much newer type of financial services provider while the community banks seem to be still floundering. According to

[34] The three main sustainability ratios in microfinance are portfolio at risk (PaR), operational self sustainability (OSS) and financial self-sustainability (FSS) with FSS being the ultimate. Operational self-sufficiency is attained when the MFI can cover all its operating (e.g. administrative, personnel, etc.) costs fully but still relies on grants and in-kind donations especially for its loan capital. Financial self-sustainability is attained when the MFI does not rely on any grants or donations and can source commercial funding.

[35] Such as LAPO's 1.16% PaR or Finance Salone's 107% and 96.5% operational self-sustainability and financial self sustainability, respectively.

Table 5.11. Average sustainability ratios of MFIs in Sierra Leone.

	December 2007 (%)	December 2008 (%)	December 2009 (%)	September 2010 (%)
Weighted average PaR < 30	6.96	5.83	10.06	13.70
Weighted average OSS	89.96	99.94	104.32	95.14
Weighted average FSS	73.67	79.93	78.75	76.00

Source: MITAF presentation 2010.

Table 5.12. Average sustainability ratios of CBs and FSAs in Sierra Leone.

	December 2008	December 2009	December 2010
Average PaR			
Community banks	Not available[a]	Not available	22%
FSAs	2.5%	1.3%	4%
Average OSS/net profit/(loss)			
Community banks[b]	Not available	Not available	83.5%[c]
FSAs (net P/L)[d]	US$5,000	US$14,500	US$39,450[e]

[a]The RFCIP only took over responsibility for the CBs in 2010 and the statistics prior to that are not reliable. [b]This average does not include the three new community banks since they are less than a year old. [c]Each of the FSAs in each of the three years made a net profit. This 'profit' may however be misleading as it is 'profits' before factoring in adjustments for substantial RFCIP grants. [d]Of the six, four were over 100% while the other two were, disappointingly, below 40% which is the reason for the average of 83.5%. [e]The average net profits for the FSAs each year were US$828, US$1,320 and US$2,320.

the RFCIP records, as at June 2011, similar performance/sustainability ratios for CBs and FSAs were as given in Table 5.12.

A note on the national social security and insurance trust. For a significant number of employed people in Sierra Leone, their mandatory contributions to NASSIT are the only, or at least the most significant and secure, savings they have. It is therefore arguable that NASSIT figures should form part of any discussion on access to financial services.

However, NASSIT is not included in this discussion as an access to financial services enabler, because this paper focuses on access to financial services that enable someone to make use of those services voluntarily and access is not constrained by statutory or other restrictions that make it practically impossible. NASSIT is mandatory and can only be accessed under the following conditions:

- retirement at 60 years of age;
- death;
- invalidity.

Some disadvantages of NASSIT as a true financial services provider are that

- in most cases NASSIT pays out contributions as pensions as opposed to a lump sum payout,
- contributions cannot be used as security for loans or type of facility,
- effectively one only enjoys the full NASSIT benefits[36] if one joins up before age 45.

For the record, as at March 2011 NASSIT had 167,000 contributors. Contributions have been increasing annually and for 2010[37] was Le 97 billion.[38] This amount is only approximately 6% of the total deposits of commercial banks. The over 167,000 NASSIT contributors however far outstrip the total in commercial banks of 27,700.[39]

In terms of number of depositors, NASSIT contributors would substantially add to the financial inclusion numbers.

5.9 Legal and Regulatory Environment in Access to Finance in Sierra Leone

5.9.1 Microfinance Policy

The government of Sierra Leone published the National Microfinance Policy in December 2010. The policy framework is based largely on the National Recovery Strategy in the short term and the *Agenda for Change*, in the medium term *'both of which emphasize the crucial role of microfinance in our endeavour to reduce poverty'*.[40] It expands the financial infrastructure of the country to meet the financial requirements of the micro, small and medium enterprises (MSMEs). Further, the policy advocates for viable and sustainable microfinance institutions that can be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. The policy emphasizes the importance of credit, saving, payments and

[36] To enjoy the full 30% NASSIT pension.

[37] The contributions for 2010 were an 18% increase over 2009 which in turn had seen a 24% increase over 2008.

[38] This is approximately US$22 million. Extrapolation of these figures give average monthly contributions of approximately US$133 (Le 580,000) per contributor. In reality, however, the employee contributes on 5 of the 15% contribution which would make contributions or savings from the employee's own salary US$6.5 or leones 30,000 per month.

[39] One should also bear in mind that this figure would include several depositors with multiple accounts.

[40] National Microfinance Policy – Government of Sierra Leone: The Poor are Bankable.

microinsurance as the critical aspects of the microfinance sector which must be promoted.

The Vision of the Microfinance Policy

The microfinance policy is guided by a vision of achieving widespread access to microfinance throughout the country, made possible by institutions operating on commercial principles. A wide range of institutions are expected to be involved in the provision of services, including community banks, non-bank financial institutions, and NGOs. Microfinance will be integrated with the mainstream financial system with a flexibility that ensures that their special features are not compromised.

Policy Targets

The main targets of the policy are:

- to provide financial services to the majority of the poor but economically active population thereby enhancing their productivity and reducing poverty;
- to provide sustainable livelihoods to unemployed citizens, especially women and youth, by improving their access to financial services.

The BSL will have primary responsibility for implementation of the policy and will apply the same fundamental principles it applies to other parts of the financial system in regulation and supervision to the operations of deposit-taking MFIs. However, it will modify regulations in order to accommodate the special characteristics of MFIs.

There are roles for all the different types of microfinance stakeholders both in the public (including central government, BSL and NaCSA) and private sectors (from commercial banks to community-based organizations) as well as the meso-level microfinance apex organization SLAMFI.

Implementation may be some way off as first the BSL needs its microfinance capacity adequately strengthened and the apex SLAMFI needs a complete overhaul and rejuvenation.

Legislation Proposed by the Policy

The microfinance policy includes certain specifics for the framework for regulation and supervision of the microfinance sector. They include the following.

- Only MFIs that are licensed to accept deposits from the public or from other financial institutions will be subject to regulation and supervision.
- For organizations such as cooperative societies where many of the risks that regulation protects against do not arise central bank supervision will

not be applied. However, where such organizations grow beyond a certain size, supervision will be applied.

- Minimum capital or other entry requirements for the successful operation of microfinance institutions may differ from those required for full service commercial institutions.
- Existing financial institutions will be encouraged to offer microfinance services.

5.9.2 The Financial Sector Development Plan 2009

The Financial Sector Development Plan aims to radically reinvent the micro and rural finance sectors. One of the four priority areas of the FSDP is to increase access to finance by broadening its outreach, governance and supervision, and community banks.

The priorities for outreach include increased focus on agricultural finance, setting up a credit guarantee scheme and institutional strengthening and product development within microfinance providers.

Governance and supervision priorities include amending the Other Financial Services Act (OFSA), finalizing prudential and non-prudential regulation and supervision for deposit-taking and non-deposit-taking MFIs, determining the legal structure and framework for financial services associations (FSAs) and updating the Cooperative Societies Act of 1977.

The strategy for restructuring the community banking system includes:

- only licensing new CBs whose structures address weaknesses of existing CBs;
- drafting a timetable for BSL exit from CBs and improving governance to ensure long-term sustainability;
- strengthening the existing CB/MFI supervision wing in the BSL;
- encouraging communities to participate in CB/MFI capitalization and management;
- ensuring that CBs/MFIs have agricultural lending skills by setting up a formal CB/MFI training programme including training on agricultural lending.

The foregoing is a clear indication that the BSL realizes that the major issues affecting micro and rural finance are

- inadequate capital,
- limited outreach,
- poor governance and oversight,
- weak community banks.

5.10 The Role of Meso Level Service Providers

5.10.1 MITAF

Microfinance Investment and Technical Facility II (MITAF II) is the continuation of MITAF I which was a US$13 million project mainly financed by United Nations Capital Development Fund (UNCDF), UNDP and KfW. The MITAF is a multi-donor facility created in mid 2004, which seeks to develop a competitive, sustainable and inclusive financial sector that provides access to financial services to low income people throughout Sierra Leone.

MITAF supports eligible banks, non-bank financial institutions, and NGOs through funding operations, loan portfolio growth and granting technical assistance packages for institutional and capacity building purposes.

The recently started MITAF II will undertake the following to increase access to finance.

Loans up to four years: to reach new markets, such as SMEs and agriculture at commercial rates.

Partial guarantee facilities: to commercial banks for lending to microfinance intermediaries.

Quasi-equity: microfinance intermediaries, requiring quasi-equity to improve capital base.

Technical assistance grants: cost share support for banks seeking to down-scale, MFIs seeking to merge or transform, and any institutions seeking to gain best practice knowledge.

Innovation grants: cost-share support to institutions developing and testing new product, linkages or distribution channels.

Support to existing community banks.

The following results were achieved by MITAF I, which ran from 2004–9:

- savings by supported MFIs, from under US$1 million in 2004 to just under US$6 million in 2009 with active saving clients from 5000 to over 35,000;
- overall outreach from less than 10,000 to 90,000.

Among the key MITAF evaluation findings (Duval and Bendu 2009) was that 'MITAF has been instrumental in building an inclusive financial sector in Sierra Leone.'

Overall, the evaluation concluded that MITAF I had met several of its objectives but still had a lot to do to further strengthen the microfinance sector in Sierra Leone, and MITAF II is designed to do just that.

5.10.2 NaCSA

There are few other non-financial service providers such as trained and experienced auditors and capacity building providers. One of the few is the National Commission for Social Action (NaCSA). NaCSA was established as a 'social fund' in November 2001 by an act of parliament.

Given that its main brief is that of postwar reconstruction, NaCSA funds projects, builds physical and social capital,[41] helps reduce poverty and promotes sustainable development, thereby helping to reduce the risk of renewed conflict.

NaCSA's interventions in microfinance[42] are currently limited to building the capacity of microfinance institutions in best practices of the industry, coordinating microfinance policies and sharing information on developments in the sector. Information sharing was also achieved through the continued publication of the microfinance newsletter, *Credit Lines*, and opening of the 'Micro-Finance Information Centre'.

5.11 Conclusion: Remaining Barriers to Access to Finance in Sierra Leone

From the foregoing sections of this chapter, it is evident that much progress has been made in improving access to finance in Sierra Leone, especially through microfinance. The progress achieved has involved a wide variety of institutions, products and services. However there are still huge gaps to fill for the Country to truly and substantially improve financial access. There are a number of factors which are impediments to increased financial access in Sierra Leone.

The MITAF project reported in its September 2009 evaluation that the two major gaps in financial access in Sierra Leone are as follows.

The operating environment. This remains a challenge to the continued growth and sustainability of microfinance institutions as well as mobile money payment providers. Financial institutions in Sierra Leone face significant challenges in providing services to micro-entrepreneurs. These include continued pervasive poverty, further exacerbated by the recent economic downturn, which severely constrains the effective market for clients' goods and services; limited infrastructure throughout the country, particularly the lack of adequate roads, electricity and communication systems, which further limits client market opportunities and the ability of institutions to offer sustainable, quality services, particularly in rural areas; lack of a credit culture that would foster client willingness to repay loans; and a high degree of corruption resulting in lending fraud.

[41] Refers to connections within and between social networks. It highlights the value of social relations and the role of cooperation and confidence to get collective or economic results.

[42] Taken from the NacSA Annual Report 2009.

Weak capacities. Despite clear improvement in institutional capacity at the micro, meso and macro levels, internal weaknesses continue to jeopardize sustainability. Microfinance institutions continue to demonstrate significant internal weaknesses in governance, management, staffing, systems and internal controls.

Institutional weaknesses in meso- and macro-level institutions, such as the Sierra Leone Association of Microfinance Institutions (SLAMFI) and the Banking Supervision Department of the BSL, also raise questions about the ability of these institutions to continue to fulfil their key roles effectively.

We shall discuss these impediments under the macro, meso and micro categories.

5.11.1 Macro Level

There is no microfinance act or specialized regulations for MFIs or community banks. This is one of the stark deficiencies that emerge from this study. What this means is that the sector is not effectively regulated or supervised by a competent financial sector regulatory authority and so make failures more likely. Even with regulations in place there will remain the need to build the capacity of the officers who would need to implement any microfinance act or regulation.

There are a number of issues to be considered when developing a microfinance legal and regulatory framework. These include having clear definition and scope of microfinance, and a supervisory agency with adequate legal authority, institutional and organizational capacity to perform the tasks.

5.11.2 Meso (Non-financial Service Providers) Level

As a minimum at this level, a strong and effective apex microfinance association is required. By all accounts, SLAMFI is very ineffective and one of the objectives of MITAF and the FSDP is to strengthen the organization. The Association of Microfinance Institutions of Uganda (AMFIU) and the Association of Microfinance Institutions (AMFI), in Uganda and Kenya, respectively, for example, are strong and very effective apex organizations which have been very instrumental in the development of the microfinance sector in those countries.

Support service providers are also at a premium and with the exception of MITAF, which is a project (and therefore not a permanent fixture), there is virtually no other capacity building provider to speak of, except perhaps NacSA.

This level of support is essential to help overcome the problems that beset the sector at the micro-level, such as (among many others):

- low financial literacy;
- weak capacities among meso level providers;
- inappropriate product offerings.

TABLE 5.13. MFIs' capital inadequacy (micro).

	NGO/MFI (%)	LLC (%)	Bank (%)
Savings (compulsory)	23	13	0
Savings (voluntary)	0	0	95
Loans (commercial)	0	25	31
Loan (subsidized)	28	24	0
Shareholders' equity	0	7	49
Donated equity	25	9	0
Retained earnings	24	22	(75)
Total	100	100	100

Source: MITAF.

5.11.3 Micro Level

Arguably most crucial is the micro-level, i.e. the microfinance providers themselves.

The major weaknesses at this level are:

- weak microfinance (expertise and experience) capacity at all levels of MFIs[43] from the boards to the staff;
- poor product design;
- lack of capital;
- poor ICT facilities.

Another major failing with almost all the non-bank MFIs is that of inadequate capital and the table below gives the funding sources for the different types of MFIs.

Table 5.13 clearly shows that non-bank MFIs are at a major disadvantage because, unlike banks and deposit-taking institutions, they cannot access the cheapest sources of funds i.e. savings and equity.

These failings at the micro-level are also, to varying degrees, results of weak macro and meso level support to the financial sector. Examples include:

- FI Bank's disappointing experience with its esusu product in Freetown which suggests strongly that even though well meaning, some aspects of the product were poorly designed (a failure which an effective meso-level provider may well have prevented).[44]
- The early failures of the community banks because of, among other factors, poor design by the central bank which led to ineffective boards, management and products.

[43] The term 'MFI' also includes cooperative societies, FSAs and VSLAs.
[44] For example, Microsave, an organization specializing in product development.

While therefore the micro-level is the most crucial link, the other levels are what facilitate it and ensure that it works effectively.

Another level and one that is very important in the whole discourse, is the current or potential clients themselves. Apart from (or maybe because of) the infrastructural difficulties of accessing financial services in Sierra Leone a huge majority of the population is ignorant of financial services and how to access them.

5.12 Summary: What Can Be Done

While microfinance appears to have made significant strides in outreach and the situation in the financial sector shows that all is not lost, the sector does need substantial strengthening. So what can or should be done?

The FSDP is a step in the right direction if effectively implemented. Another first step is for the BSL or another credible entity (e.g. MITAF II) to start regularly collecting sets of standardized indicators for all microfinance providers (including other access to finance enablers such as insurance companies) in Sierra Leone. There is a need to start with a comprehensive and definitive baseline so as to know what the true picture is and hence to be better prepared to address the issues effectively. These indicators would include number of deposits, numbers and types of loans and other financial services, borrowers and savers, number of branches and other financial access points (even where those are branchless, such as ATMs and non-bank agents), value of loans and deposits.

Second, the overriding objective of any changes at the macro level should be that the financial sector should work for the private sector, i.e. it should ensure that the bulk of its earning assets are in the form of loans and advances to the private sector. To help achieve this, incentives should be provided to motivate financial institutions to be innovative in offering credit, savings and other services on a large scale.

At all levels (macro, meso and micro) innovation should be encouraged, especially in the area of product design. The development of M-PESA by Safaricom in Kenya is a good example of such innovation.

Third, rural areas should be the main focus of the financial sector working for the private sector and this means specifically agricultural lending and provision of other rural-based financial services.

Fourth, there is a need to reduce the cost of financial services. Reducing inefficiencies in providing the services will help reduce the cost of the services. This can be achieved through (among other things) improved product designs and better trained and more experienced management and staff.

Fifth, confidence in the formal and semi-formal financial sectors needs to be built. This may be brought about by increased financial literacy initiatives so that those in the informal sector, especially in rural areas, begin to learn more about and so develop more trust in and use the financial instruments designed for them.

Notwithstanding these areas that need attention, there is no doubt that access to finance is increasing as evidenced by the annually increasing client numbers of the MFIs, and it is clear that in the uptake of mobile money payments (in which MFIs such as Hope and banks such as UTB, have become involved), for example, microfinance has contributed substantially to this growth. Perhaps most encouraging are the early successes of the FSAs.

5.13 Definition of Terms

Access to finance. This refers to the ease with which individuals or enterprises can obtain and make use financial services.

Bottom of the pyramid. This is the largest, but poorest socio-economic group. In global terms, this is the 2.5 billion people who live on less than US$2.50 per day. The phrase 'bottom of the pyramid' is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology. This field is also often referred to as the 'base of the pyramid' or just the 'BoP'.

Financial services. The provision of services directly related to loans and advances, savings, insurance and money transfers by any type of provider for any legal purpose and which, crucially, is not forced or mandatory (such as mandatory pension fund contributions) and allows the client voluntary access to and use of that service with minimal restrictions.

Macro, meso and micro. Macro involves the structure, behaviour and decision-making of the entire financial sector at the national, regulatory level. Meso is a prefix meaning middle or intermediate. Micro means 'small' or at the individual level. These have been grouped together because in this paper they are used to delineate the three main levels that the paper argues affect A2F i.e. the regulatory authorities (macro level), the providers of non-financial or support services to the sector (meso) and of course the main players in the sector, the financial institutions (micro-level).

Microfinance. The provision of financial services to the low income population especially for, but not limited to, business purposes. Microfinance therefore includes, but is not limited to, microcredit, microsavings and microinsurance. The key characteristics are: the value (usually very low) of and methodologies used, for financial services transactions.

Microinsurance. A term increasingly used to refer to insurance characterized by low premiums and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes.

Mobile money payments. This is an alternative financial transactions method. Instead of paying with cash, cheque or credit cards, a consumer can use a mobile phone to pay for a wide range of goods and services. While it is possible to be used by segments of the population which do not fall under the BoP, it is used currently largely by the under-banked and unbanked in most African countries. Technically therefore, while it is a tool for increased financial access, it is not exclusive to 'microfinance'.

Appendix A: Abbreviations

AfDB	African Development Bank
AMFI	Association of MFIs (Kenya)
AMFIU	Association of MFIs of Uganda
ATM	Automated Teller Machine
A2F	Access to Finance
BSL	Bank of Sierra Leone
CSFI	Centre for the Study of Financial Innovation
CB	Community Bank
DFID	Department for International Development
FSDP	Financial Sector Development Plan
FSA	Financial Services Association
FSS	Financial Self-Sufficiency
FIB	First International Bank
GoSL	Government of Sierra Leone
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
INGO	International NGO
KREP	Kenya Rural Enterprise Programme
KfW	Kreditanstalt für Wiederaufbau (German)
LAPO	Lift Above Poverty Organisation
MIS	Management Information System
MFI	Microfinance Institution
MITAF	Microfinance Investment and Technical Assistance Facility
MSME	Micro Small and Medium Enterprises
MAFFS	Ministry of Agriculture, Forestry and Food Security
MTI	Ministry of Trade and Industry
MMP	Mobile Money Payments
NCDB	National Co-operative Development Bank
NaCSA	National Commission for Social Action National
NDB	National Development Bank
NGO	Non-Governmental Organisation
OSS	Operational Self Sufficiency
OFSA	Other Financial Services Act
PaR	Portfolio at Risk

RCT	Randomized Controlled Trials
RFCIP	Rural Finance and Community Improvement Programme
SLAMFI	Sierra Leone Association of MFIs
UTB	Union Trust Bank
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USD	United States Dollars
VSLA	Village Savings and Loans Association

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