

NEW RURAL FINANCE INSTITUTIONS IN SIERRA LEONE

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Working to eradicate rural poverty and promote economic growth, the Government of Sierra Leone, with financial support from the International Fund for Agricultural Development, has established 17 rural finance institutions across the country. With the widest financial network in the country, community banks are providing access to saving and loan facilities for increasing numbers of rural people.

*Cover The Taiama
Community Bank advertises
its services*

To realise the immense potential of rural finance institutions as a platform for accelerated economic, agricultural, social and rural transformation, the Government of Sierra Leone, with financial support from the International Fund for Agricultural Development (IFAD), began implementing the Rural Finance and Community Improvement Programme in 2008 (RFCIP). Its principal goal is to reduce rural poverty and household food insecurity on a sustainable basis, by improving access to rural financial services and enabling the development of the agricultural sector.

The programme, which is being implemented in the 12 districts where over 70% of the population lives, has established 17 community banks (CBs), 59 financial service associations and an Apex Bank to provide rural communities with access to financial services. The primary target groups for CBs are smallholder farming groups, and micro and small-scale entrepreneurs, including women and youths. The aim of CBs are to tackle the high interest rates charged by unscrupulous middlemen, and a lack of secure saving facilities, affordable loan schemes and remittances.

Making finance work

CBs were first established by the Bank of Sierra Leone (BoSL), which is the regulatory body responsible for

regulating the country's financial sector. Eight rural banks were established in 1985, but these were eroded due to the civil war, poor monitoring and supervision from the BoSL, and weak management systems. As the war ended in 2002, the concept was revamped and six CBs were created. To operationalise CBs, an Act of Parliament (Other Financial Services Act 2001) was enacted, and with the assistance of RFCIP, there are now 17 CBs.

Crucial to the establishment of CBs was the creation in 2008 of the National Steering Committee to coordinate, oversee and monitor the project: Members include the Ministry of Finance and Economic Development (MoFED), the Ministry of Agriculture Forestry and Food Security (MAFFS), IFAD, BoSL, the Parliamentary Committees on finance, agriculture, housing and infrastructure, and the National Federation of Farmers in Sierra Leone as representatives of the farming community.

A feasibility study, conducted in June 2010, was used to select the strategic location of CBs. Key things taken into consideration included market size, population and the general economic activities in each area. Out of 149 chiefdoms, 17 were identified to establish CBs. Various government, donors and beneficiary level stakeholders were informed and sensitised.

Since the concept of CBs is geared towards community ownership, the sale shares (a unit of

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ownership in the CB expressed in monetary terms, where one share is worth 10,000 leone, or €1.10) is then launched. This plays an integral role in mobilising funds, ascertaining the willingness of communities to use the CB and also raising awareness of banking among the intended beneficiaries and would-be shareholders. During this process, members of the selected communities are identified and trained to sell shares, kick-starting the banking process. In some cases, however, whilst the number of shareholders was relatively high, resources mobilised through the sale of shares did not meet the required amount set out by the BoSL (one billion leone, or €112,730, paid up capital).

Monitoring of the sales of shares is carried out by the Apex Bank, ensuring accountability and transparency. Nonetheless, negative attitudes of some share promoters (like dishonesty, ineffectiveness and inefficiency) led to a poor accounting of the capital mobilised. Going forward, the Apex Bank has adopted a strategy of early staff recruitment for CBs to prevent this happening again.

Convening of a general assembly is another crucial step in establishing CBs. This is characterised by identifying, electing/selecting board members and then the chairman. Poor commitment from some board members, as well as an increasing demand for high sitting fees, were the main challenges. CB staff also began to be recruited, providing job opportunities for young people with the right skills and knowledge. Inadequate staff numbers and loss of staff due to the remote locations of CBs did cause some problems. However, the Apex Bank now has a pool of standby personnel to be deployed in case of a staff leaving without prior notice, and modern staff quarters have been constructed.



After a procurement process, construction of CBs was supervised by engineers employed by the project. So far, 11 CBs, 11 managers' quarters and 34 staff quarters have been constructed, and six existing CBs have been renovated. However, land disputes, construction delays, inadequate supervision from some engineers, and inadequate local skilled labour caused delays. Poor supervision by project staff and contractors also resulted in some CBs being substandard.

After construction, each CB submits an application to the BoSL which carries out an inspection to ensure that certain requirements (such as having enough capital and skilled staff) are met before issuing a license enabling the bank to commence banking activities. At the moment, 17 CBs across the country have been issued with a license. Each bank is then

Above Construction was supervised by engineers employed by the project



Above Community banks have been established in 12 out of 14 districts in the country

opened officially to the public, and share mobilisation continues.

Monitoring, supervision and training of CB staff is done by the Inspections and CBs Operations Units of the Apex Bank on a daily, weekly and monthly basis as need arise. Their strategic role is to identify and resolve critical operational lapses; ensure CB control measures and checks and balances are strictly adhered to; and provide training to banking staff to meet demands of clients and detect frauds. The Apex Bank also provides IT support, HR support, training/capacity building, and a refinance facility fund (RFF). As a result, all CBs are fully equipped with Management Information Systems (MIS), and swift movement of cash between CBs is ensured.

Despite these successes, some Apex Bank weaknesses that have been identified include a lack of resident internal auditors, weak board governance and inadequate resources leading to defaults in loan repayments of the RFF. In response, the Apex Bank has increased its field presence by bringing in inspection assistants that constantly monitor CBs on a weekly basis to resolve problems promptly.

What can we see?

CBs have been established in 12 out of 14 districts in Sierra Leone, providing the widest financial network in the country. This is showing results at different levels:

(a) Institutional building: The recruitment and training of 102 CB staff on banking operations, and 51 Board members in corporate governance and financial literacy are pointers of success.

The factors responsible for achieving this are the willingness shown by many communities to provide land for construction; the timely award of contracts to contractors; adherence to the feasibility study; constant monitoring and supervision by the Apex Bank; the desire by all stakeholders to provide rural financial services at national level; the availability of the Apex Bank HR department for recruitment; and the execution of an annual training plan. Lessons learned are that there is need for continuous capacity building of CB staff and board members. Overdependence on one service provider to provide banking software service was a challenge, however software has not been procured to link the CBs to the Apex Bank to ensure real time monitoring.

(b) Access to finance: By December 2016, 17 CBs had a total of 24,016 shareholders with a share capital of 2,770,726,000 leone (€306,722). Depositors/savers totalled 68,590, with a deposit value of 26,952,605,000 leone (€2,985,500). The number of loan clients surged to 20,170 and the loan portfolio was 31,741,739,000 leone (€5,515,800). The total number of clients accessing remittance services was 19,303 with a remittance value of 18,279,162,000 leone (or more than 2 million euro).

The reasons behind these high numbers include the community sensitisation efforts (via radio programmes, jingles, road side shows), stakeholder participation at every stage, and a positive enabling environment (government providing the necessary business rules and regulations to conduct successful business). It has also been mentioned that affordable products and services, and the introduction of a Gender Action Learning System (GALS), helped encourage women to join the bank, just as having products tailored towards the needs of women.

Establishing CBs in rural communities is pivotal in the socio-economic development of a country.

On the other hand, the difficult geographical terrain, staff turnover, limited financial literacy, poor telecommunications, disperse location of customers and lack of crop insurance did deter some people from making the most of CB facilities. One lesson learnt was the importance of financial literacy education to prevent fraud. The need for a credit reference bureau to prevent concurrent borrowing from different CBs, and crop insurance and agricultural production loans, was also identified.

(c) Gender equality and youth empowerment:

Empowering the disempowered has been the hallmark of the establishment of the CBs. The percentage of youth participation in the area of savings is 37%, and women participation is 42%. In terms of access to loans, 40% are women whilst 42% are youths. An Okada (motor bike) loan scheme was developed exclusively to benefit youths, and of those employed by the CB network 25% were women. To improve these statistics further, GALS is being initiated when a new CB is created to ensure that women are catered to from the start.

(d) Stakeholder participation and ownership:

There has been a growth in share capital mobilisation at community level, and the level of participation from different stakeholders is improving. All 17 CBs have functioning boards made up of community members, and there is a National Steering Committee that meets to strategically discuss implementation and the challenges faced by CBs. There is also an Annual General Meetings for shareholders. A key lesson learnt is that the demand for loans exceeds the savings culture of the rural poor. The project is therefore operating a RFF to provide credit lines to CBs to at least reduce the gap between the demand for loans and what is actually available in CBs.

(e) Sustainability: The network's average operational self-sufficiency (OSS), which is a measure of how well the network is able to generate resources (income) in excess of expenses, stood at 129%, which is well above the Microfinance Information Exchange market benchmark of 112% for microfinance institutions. Financial self-sufficiency (FSS), upon adjusting for operational cost subsidy, averaged 102% (2% above benchmark).

S/N	CB indicators (December 2016)	
1	Share capital	Le 2,770,726,000 (€306,722)
2	Shareholders	24,016
3	Savings/deposits	Le 26,952,605,000 (€2,985,500)
4	Savers/depositors	68,590
	% women	42.31%
	% youth	37.42%
5	Loan portfolio	Le 31,741,739,000 (€5,515,800)
6	Loan clients	20,170
	% women	39.75%
	% youth	42.34%
7	Remittances	Le 18,279,162,000 (€2,024,600)
8	Number of beneficiaries	19,303
9	Operational self-sufficiency (OSS)	129.41%
10	Financial self-sufficiency (FSS)	102%



A booming business

Martha George, a single mother of five children, was a small trader in Taiama, but since receiving a loan from Taimama CB she is among the top businesses in Taiama and owns two shops. With the profit she has made George has been able to construct a house and pay school fees for her children.

George has plans to increase her loan amount so that she can travel to China in order to expand her shop. “By God’s grace I want to have the biggest shop in Taiama in the next 2 years,” she explains.

Martha George

Local (domestic money transfers, electronic cash transfers) and international (Western Union through sub-agency arrangements with established commercial banks) remittances have improved significantly. Access to finance has been on the increase as both savings and loans are growing, as well as the number of people accessing those services. However, despite the steady growth rate, the consolidated share capital of 2.77 billion leone (€306,722) falls below the regulatory paid up capital requirement of 17 billion leone. The network and its supervising body, Apex Bank, are therefore scaling share mobilisation strategies being employed and trying to better capitalise CBs from the outset rather than provide them with operational costs to ensure they are able to meet the growing demand for loans.

Key ingredients

Establishing CBs in rural communities is pivotal in the socio-economic development of a country. Our experience so far has shown that this can be a profitable business. Similar initiatives need to consider:

1. The conduct of a professional feasibility study: this must be done without fear or favour and should be devoid of political interference
2. Capitalisation: banks cannot succeed without enough start-up capital
3. Effective monitoring and supervision
4. Stakeholder participation and ownership
5. Good governance systems

6. Effective management systems
7. Existence of a modern MIS
8. Development of good products and services
9. Good customer relations and marketing
10. Robust sensitisation.



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